BIOELECTRONICS CORPORATION
(A DEVELOPMENT STAGE COMPANY)

FINANCIAL STATEMENTS
PERIOD FROM APRIL 10, 2000 (INCEPTION) TO DECEMBER 31, 2010
(UNAUDITED)

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PERIOD FROM APRIL 10, 2000 (INCEPTION) TO DECEMBER 31, 2010

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BioElectronics Corporation (A Development Stage Company)
Balance Sheets
(Unaudited)
December 31, 2010 and 2009

	2010	(As Restated) 2009
Assets		
Current assets:		
Cash and cash equivalents	$ 26,389	$ 296,352
Trade and other receivables, net	184,970	402,003
Inventory	972,346	287,938
Due from related party	-	165,297
Prepaid expenses and others	99,570	102,635
Total current assets	1,283,275	1,254,225
Property and equipment	170,011	93,502
Less: Accumulated depreciation	(94,872)	(79,921)
Property and equipment, net	75,139	13,581
Total assets	$ 1,358,414	$ 1,267,806
Liabilities and stockholders' deficiency		
Current liabilities:		
Accounts payable	$ 338,014	$ 85,661
Accrued expenses	37,486	42,241
Deferred revenue	213,315	365,853
Related party notes payable, net of discount	1,145,437	-
Notes payable	11,488	12,654
Total current liabilities	1,745,740	506,409
Long-term liabilities:		
Related party notes payable, net of discount	3,110,275	1,715,127
Total liabilities	4,856,015	2,221,536
Commitments and contingencies		
Stockholders' deficiency:		
Common stock, par value $0.001 per share, 1,750,000,000 and 1,500,000,000 shares authorized at December 31, 2010 and 2009 respectively; 1,546,648,871 and 1,470,998,871 shares issued and outstanding at December 31, 2010 and 2009, respectively.	1,546,649	1,470,999
Additional paid-in capital	9,657,748	9,284,730
Deficit accumulated during the development stage	(14,701,998)	(11,709,459)
Total stockholders' deficiency	(3,497,601)	(953,730)
Total liabilities and stockholders' deficiency	$ 1,358,414	$ 1,267,806

BioElectronics Corporation (A Development Stage Company)
Statements of Operations
For the Years Ended December 31, 2010 and 2009
and for the Period from April 10, 2000 (Inception) to December 31, 2010
(Unaudited)

	2010	(As Restated) 2009	(As Restated) Period from April 10, 2000 (Inception) to December 31, 2010
Sales	$ 821,136	$ 779,794	$ 3,906,867
Cost of Goods Sold	402,143	303,763	1,830,057
Gross profit	418,993	476,031	2,076,810
General and Administrative Expenses:			
Bad debt expense	163,355	-	221,610
Depreciation and Amortization	15,586	14,579	112,299
Investor Relations Expenses	154,580	33,895	1,749,141
Legal and Accounting	638,714	106,569	1,421,766
Sales Support Expenses	701,391	147,037	2,129,321
Other General and Administrative Expenses	1,632,317	602,176	8,792,957
Total General and Administrative Expenses	3,305,943	904,256	14,427,094
Loss from Operations	(2,886,950)	(428,225)	(12,350,284)
Interest Expense and Other, net:			
Other Income	122,530	-	122,530
Interest Expense	(222,428)	(205,866)	(2,432,701)
Loss on Disposal of Assets	(5,691)	-	(41,543)
Total Interest Expense and Other, net	(105,589)	(205,866)	(2,351,714)
Loss Before Income Taxes	(2,992,539)	(634,091)	(14,701,998)
Provision for Income Tax Expense	-	-	-
Net loss	$ (2,992,539)	$ (634,091)	$ (14,701,998)
Net loss Per Share - Basic and Diluted	$ (0.0020)	$ (0.001)	N/A
Weighted Average Number of Shares Outstanding - Basic and Diluted	1,492,873,871	982,246,684	N/A

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 Years Ended December 31, 2010 and 2009
and for the Period from April 10, 2000 (Inception) to December 31, 2010
(Unaudited)

	Capital Stock		(Restated) Additional Paid-in Capital	(Restated) 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 (As Restated)	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 (As Restated)	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 (As Restated)	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 (As Restated)	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 (As Restated)	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)

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, 2010 and 2009
and for the Period from April 10, 2000 (Inception) to December 31, 2010
(Unaudited)

	2010	(Restated) 2009	Period from April 10, 2000 (Inception) to December 31, 2010
Cash flows from Operating Activities:			
Net loss	$ (2,992,539)	$ (634,091)	$ (14,701,998)
Adjustment to Reconcile Net Loss to			
Net Cash Used In Operating Activities:			
Depreciation and amortization	15,586	14,579	112,299
Provision for bad debts	163,355	-	221,610
Amortization of non-cash debt issuance costs	-	-	725,373
Amortization and extinguishment of beneficial conversion discount	26,082	94,840	758,015
Non-cash expenses	45,950	242,898	1,503,499
Stock-based employee compensation expense	336,718	-	409,421
Non-cash interest related to notes payable	-	52,656	592,418
Non-cash interest related to related party notes payable	186,176	107,219	273,879
Write off of related party notes payable	-	(266,490)	(266,490)
Amortization of loan costs	-	-	129,852
Increase in related party notes payable for services rendered	289,087	-	851,863
Loss on disposal of property and equipment	5,691	-	41,543
Changes in Assets and Liabilities			
(Increase) Decrease in:			
Trade and other receivable	53,678	(333,125)	(571,875)
Inventory	(684,408)	(222,846)	(972,346)
Due from related party	165,297	(165,297)	165,297
Prepaid expenses and others	26,413	(84,190)	(63,567)
Deposits	-	900	-
			-
Increase (Decrease) in:			-
Accounts payable	252,353	(181,241)	478,262
Accrued expenses	(4,755)	(215,512)	245,928
Deferred revenue	(152,538)	365,853	213,315
Customer deposits	-	(119,398)	-
Net cash used in operating activities	(2,267,854)	(1,343,245)	(9,853,702)
Cash flows from Investing Activities			
Acquisition of property and equipment	(82,835)	-	(211,564)
Net cash Used in Investing Activities	(82,835)	-	(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	(24,514)	(62,000)	(552,733)
Proceeds from related party notes payable	2,110,240	1,705,844	6,915,193
Payments on related party notes payable	(5,000)	(932,025)	(974,803)
Proceeds from issuance of common stock	-	872,500	3,623,837
Other	-	-	(9,987)
Net cash provided by financing activities	2,080,726	1,584,319	10,091,655
Net increase (Decrease) in cash	(269,963)	241,074	26,389
Cash- Beginning of Year	296,352	55,278	-
Cash- End of Year	$ 26,389	$ 296,352	$ 26,389
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 and accrued interest into common stock	$ 66,000	$ 1,093,848	N/A
Issuance of convertible debt with beneficial conversion interest	$ -	$ 6,000	$ 840,982
Conversion of warrants into common stock	$ -	$ 5,336	$ 5,336
Prepaid insurance expense through issuance of notes payable	$ 11,488	$ 12,654	$ 24,142
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 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.

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 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Company has prepared the financial statements in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Development Stage Company

As defined by Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 915, "Development Stage Entities", the Company is devoting substantially all of its present efforts to developing its business. 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.

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. The standard maximum deposit insurance amount protected by the Federal Deposit Insurance Corporation is unlimited for non-interest bearing accounts at December 31, 2010 and $250,000 at December 31, 2009. As of December 31, 2010 and 2009, the excess amount of bank deposits unprotected is approximately $-0- and $46,000, respectively. 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, nonvested restricted shares, stock options, intrinsic value of beneficial conversion features, allowance for doubtful trade and other receivables and the utilization of deferred tax assets. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers all highly liquid instruments purchased with an original maturity of three months or less as short-term investments.

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 $34,000 and $33,791 at December 31, 2010 and 2009, respectively. Bad debt expense for the years ended December 31, 2010 and 2009 was $197,355 and $3,385, respectively.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Credit Risk Associated with Trade Receivables

In order to reduce the default risk associated with international revenue transactions, the Company secured most of international sales by a letter of credit or guaranteed by the Export Import Bank of the United States.

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". 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, 2010 and 2009.

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.

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 years ended December 31, 2010 and 2009. Defective units are replaced at the request of the customer.

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 years ended December 31, 2010 and 2009 are $53,742 and $550, respectively, and are included in other general and administrative expenses in the statements of operations. Prepaid advertising costs are amortized on a straight-line basis over a one year period beginning on the date the advertisements are aired.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advertising Costs (Continued)

As of December 31, 2010 and 2009, total advertising costs included in prepaid expenses on the balance sheets were $46,450 and $34,014, net of accumulated amortization of $38,298 and $-0-, respectively. Total amortization expense included in advertising costs for the years ended December 31, 2010, 2009, and for the period from inception (April 10, 2000) through December 31, 2010, was $38,298, $-0-, and $38,298, respectively.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is provided when necessary to reduce deferred tax assets to amounts expected to be realized. Also see note 13.

The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Company records interest and penalties related to unrecognized tax benefits as a component of income tax expense. Income tax returns for tax years from 2004 to 2009 are subject to examination.

From time to time, the Company may be assessed interest or penalties by major tax jurisdictions, although any such assessments historically have been minimal and immaterial to the financial results. Our policy is that we recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense.

Research and Development

Research and development are costs of clinical studies that are charged to operations as incurred. The Company incurred $-0- and $38,107 of such costs for the years ended December 31, 2010 and December 31, 2009, respectively.

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. Shipping and handling costs of $32,626 and $54,376 are included in cost of goods sold for the years ended December 31, 2010 and 2009, respectively.

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.

Stock Incentive Plans and Other Share-Based Compensation

The Company recognizes the cost of employee services received in exchange for awards of equity instruments based upon the grant-date fair value of those awards. Also see note 10.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Loss Per Share

The Company calculates basic and diluted net loss per share in accordance with ASC Topic 260, “Earnings Per Share”, which requires the presentation of “basic” and “diluted” net loss per share on the face of the statement of operations. Basic and diluted net loss per share is computed by dividing net loss by the weighted-average number of outstanding shares of common stock. Convertible debt instruments, warrants, and options to purchase common stock are included as common stock equivalents only when dilutive. For the years ended December 31, 2010 and 2009 the Company reported net losses, as a result there is no difference between basic and diluted shares for each of the years presented as the shares are anti-dilutive.

Issuance of Stock for Non-Cash Consideration

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

Stockholder’s Equity Transactions

On June 18, 2009, the Company authorized to increase the number of authorized common shares from 750,000,000 to 1,000,000,000 and on July 9, 2009, the Company further increased the authorized common shares to 1,500,000,000. On November 10, 2010 the Company increased its authorized shares of common stock to 1,750,000,000 in order to cover the potential issuance of common stock resulting from the conversion of convertible debt to equity and the vesting of nonvested share awards. The holders of the remaining shares to be issued upon conversion or exercise of equity instruments are likely to promptly resell the shares into the public market. It is possible that resale of these shares will significantly reduce the market price for our common stock. In addition, the issuance of shares upon conversion of the convertible notes or exercise of the options will have a dilutive impact on our stockholders. As a result, our net income per share could decrease in future periods, and the market price of our common stock could decline.

Fair Value of Financial Instruments

The Company’s financial instruments consist primarily of cash, trade and other receivables, 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. 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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. As a result of the "start up" nature of our business and the uncertainty as to when certain products will approved for sale per our application with the United States Food and Drug Administration (U.S. FDA), we expect to continue to incur losses as we continue to identify and enter into new markets and enter into agreements with new distributors. These conditions raise substantial doubt about our ability to continue as a going concern. Management recognizes that in order to meet our capital requirements, and continue to operate, additional financing will be necessary. We are evaluating alternative sources of financing to improve our cash position and are undertaking efforts to raise capital, but there is no assurance that such additional funds will be available for us to finance our operations on acceptable terms, if at all. If we are unable to raise additional capital or generate positive cash flow, it is unlikely that we will be able to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

The Company sustained net losses of approximately $2,993,000 and $634,000 (As restated-see Note 16) for the years ended December 31, 2010 and 2009, respectively, and had cumulative losses from inception to December 31, 2010 of approximately $14,702,000. The Company projects that it will require an additional $1,500,000 to $2,000,000 in working capital in the next 12 months. Management has already loaned the Company approximately $700,000 and is committed to loan the additional $800,000 to $1,200,000. The Company is currently discussing various strategic alternatives with investors. If U.S. FDA approval is obtained and sales increase as anticipated, the Company will seek additional capital from new investors. The Company has prepared a financing proposal to discuss opportunities with potential investors or possible strategic partners. However, the Company can provide no assurance that it will be able to obtain the financing it needs to continue its efforts for market acceptance, U.S. FDA approval and to maintain operations and alleviate doubt about its ability to continue as a going concern.

NOTE 4 – INVENTORY

The components of inventory as of December 31, 2010 and 2009 are:

	December 31, 2010	December 31, (Restated) 2009
Raw Materials	$ 432,869	$ 27,900
Prepaid Inventory	121,360	-
Finished Goods	418,117	260,038
	$ 972,346	$ 287,938

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31:

	December 31, 2010	December 31, 2009
Machinery & Equipment	$ 163,129	$ 86,620
Leasehold Improvements	6,882	6,882
	170,011	93,502
Less: Accumulated Depreciation	(94,872)	(79,921)
Total Property and Equipment, Net	$ 75,139	$ 13,581

Depreciation expense for the years ended December 31, 2010 and 2009 was $15,586 and $14,579, respectively.

NOTE 6 – FINANCING OF RECEIVABLES WITH RELATED PARTY

The Company entered into an agreement (the "Agreement") on March 5, 2010, with Jarenz LLC ("Jarenz") pursuant to which Jarenz provides accounts receivable financing and collection services to the Company. Jarenz is a related party, as defined in ASC 850.

The Agreement provides for the Company to assign certain accounts receivable balances to Jarenz in exchange for a Cash Advance amount of up to 80% of the face value of the receivables transferred; such amount determined upon discussions between the parties. Following collection of the related receivable, Jarenz pays the balance thereof to BioElectronics minus the initial down payment and a discount fee earned by Jarenz.

Jarenz's discount fee is a percentage, between 1% to 9.5%, of the Cash Advance Amount based upon the number of days elapsing between the date of purchase by Jarenz and the date of collection of the related accounts receivable with a minimum fee of $10 per transaction.

The Company accounted for transactions under the Agreement as secured borrowings since the Company has not surrendered control of the transferred accounts receivable to Jarenz under the Agreement. A total of approximately $1,113,000 of receivables were sold to Jarenz, with a discount fee of approximately $10,000 recorded as interest expense in the statement of operations for the year ended December 31, 2010. As of December 31, 2010 the factoring agreement was terminated and trade receivables are no longer available for sale to Jarenz.

NOTE 7 – 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.

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”).

NOTE 7 – NOTES PAYABLE (CONTINUED)

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 an amendment to the 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 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.

During the first and second quarters of the year ended December 31, 2009, the Company made four cash payments during the year of 2009 totaling $62,000 towards the balance of the Notes. There were further interest accruals totaling $52,656 during the year of December 31, 2009. As of December 31, 2009, the Company converted the remaining balance of notes payable ($564,748) into 466,488,207 shares of the Company's common stock, at a conversion price of $.0012. The notes payable were fully converted as of December 31, 2009.

NOTE 7 – NOTES PAYABLE (CONTINUED)

The following table summarizes the activity of the Senior Secured Convertible Notes from December 31, 2005 through December 31, 2010:

	Convertible Notes
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	-
Balance, December 31, 2006	1,037,465
Accrual of Interest	117,772
Conversion of Notes Payable Into 4,232,228 Shares	(308,119)
Balance, December 31, 2007	847,118
Accrual of Interest	67,282
Repayments of Notes Payable	(100,000)
Conversion of Notes Payable Into 9,150,331 Shares	(240,308)
Balance, December 31, 2008	574,092
Accrual of Interest	52,656
Repayments of Notes Payable	(62,000)
Conversion of Notes Payable Into 466,288,207 Shares	(564,748)
Balance, December 31, 2009	$ -

A discount of $731,293 was recorded as of December 8, 2005 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. The discount associated with the warrant was fully amortized as of December 31, 2008 and the remaining outstanding warrants expired in 2010.

Interest expense incurred on the above notes for the years ended December 31, 2010 and 2009 was $-0- and $52,656, respectively.

Insurance Premium Financing

During 2010 and 2009, the Company entered into insurance premium financing agreements with an independent company to purchase insurance policies for directors' and officers' liability, general liability and product liability. The annual interest rate was 5.51% and 6.26% at December 31, 2010 and 2009, respectively. The total amount financed during 2010 was $23,348. Interest expense for this note was approximately $1,500 for the year ended December 31, 2010. The outstanding payable balance at December 31, 2010 was $11,488.

NOTE 7 – NOTES PAYABLE (CONTINUED)

Insurance Premium Financing (continued)

The total amount financed during 2009 was $29,295. The interest expense for this note was approximately $1,000 for the year ended December 31, 2009. The outstanding payable balance at December 31, 2009 was $12,654.

NOTE 8 – 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.

During the year ended December 31, 2010, IBEX converted $66,000 of the Revolver's outstanding balance and received 55,000,000 shares of the Company's common stock at a conversion price of $0.0012 per share. At December 31, 2010, the balance of the Revolver was $1,206,981, net of unamortized discount from beneficial conversion feature of $82,972.

On September 30, 2009, a promissory note balance with outstanding principal balance and accrued interest of $530,037 that was originally owed to another related party of the Company (PAW LLC) was assigned to IBEX as borrowings under the Revolver agreement.

During the year ended December 31, 2009, IBEX converted $529,100 of the Revolver's outstanding balance and received 439,500,000 shares of the Company's common stock at conversion prices at less than $.01 per share. At December 31, 2009, the balance of the Revolver was $1,178,901, net of unamortized discount from beneficial conversion feature of $109,052. The discount is being amortized over the remaining maturity of the revolver using the effective interest method or upon extinguishment (See Note 16).

Amortization of the discount included in interest expense for the years ended December 31, 2010 and 2009 was $26,081 and $94,840, respectively, and $758,011 for the period from April 10, 2000 (Inception) through December 31, 2010. Future amortization of the discount will be $20,743 per year from 2011 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 entered into additional convertible promissory notes to fund operations. The promissory notes are convertible equal to the quotient of (i) a sum equal to the entire outstanding principal and interest, divided by (ii) the conversion price determined at the issuance date. 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. Accordingly, there have been no beneficial conversion features contained in the convertible promissory note agreements issued from August 1, 2009 through December 31, 2010.

NOTE 8 – RELATED PARTY NOTES PAYABLE (CONTINUED)

IBEX Promissory Convertible Notes Payable (continued)

The following table includes the issuance date, maturity date, principal balance, accrued interest, and number of shares, which the debt can be converted to as of December 31, 2010:

Issuance	Maturity	Interest	Amounts Available for Conversion			Conversion	Shares
Date	Date	Rate	Principal	Interest	Total	Price/Share	to be Issued
8/1/2009	8/31/2011	8.00%	$ 519,920	$ 59,711	$ 579,631	$ 0.0190	30,506,895
2/9/2010	2/2/2012	8.00%	135,000	7,477	142,477	0.0100	14,247,700
3/31/2010	3/31/2012	8.00%	310,000	17,168	327,168	0.0100	32,716,800
4/15/2010	4/30/2012	8.00%	20,000	1,108	21,108	0.0100	2,110,800
5/5/2010	5/31/2012	8.00%	120,000	6,646	126,646	0.0100	12,664,600
5/14/2010	5/31/2012	8.00%	100,000	5,537	105,537	0.0100	10,553,700
6/22/2010	6/30/2012	8.00%	130,000	7,200	137,200	0.0100	13,720,000
7/15/2010	7/31/2012	8.00%	10,000	370	10,370	0.0100	1,037,000
7/23/2010	7/31/2012	8.00%	100,000	3,529	103,529	0.0080	12,941,125
9/7/2010	9/30/2012	8.00%	50,000	1,260	51,260	0.0070	7,322,857
9/14/2010	9/30/2012	8.00%	185,000	4,379	189,379	0.0070	27,054,143
9/30/2010	9/30/2012	8.00%	50,000	1,008	51,008	0.0070	7,286,857
10/4/2010	10/31/2012	8.00%	50,000	964	50,964	0.0060	8,494,000
10/8/2010	10/31/2012	8.00%	50,000	921	50,921	0.0060	8,486,833
11/4/2010	11/30/2012	8.00%	40,000	500	40,500	0.0050	8,100,000
11/15/2010	11/30/2012	8.00%	100,000	1,008	101,008	0.0045	22,446,222
12/7/2010	12/31/2012	8.00%	78,333	429	78,762	0.0046	17,122,174
12/16/2010	12/312012	8.00%	30,000	99	30,099	0.0050	6,019,800
12/30/2010	12/31/2012	8.00%	40,000	9	40,009	0.0050	8,001,800
			$ 2,118,253	$ 119,323	$ 2,237,576		250,833,306

According to the Security Agreement dated August 1, 2009, the Company grants IBEX a security interest in, all of the rights, 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 collaterals. As of December 31, 2009, the outstanding balance of the initial convertible promissory note agreement, plus accrued interest, was $537,655.

Other Related Party Loans

The Company has entered into convertible promissory note agreements with various other related parties of the Company. During the year ended December 31, 2010, the Company borrowed a total of $872,848, consisting of cash as well as the conversion of accrued expenses of $289,087 owed to one of the related party for reimbursement of expenses and services rendered during the year.

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 December 31, 2010:

NOTE 8 – RELATED PARTY NOTES PAYABLE (CONTINUED)

Other Related Party Loans (continued)

Issuance Date	Maturity Date	Amounts Convertible Principal	Interest	Total	Conversion Price/Share	Shares to be Issued	Lender
6/30/2010	5/31/2012	$ 18,941	3,701	$ 22,642	0.0100	$ 2,264,200	St. Johns LLC
8/9/2010	8/31/2012	100,000	3,178	103,178	0.0060	17,196,333	Robert Whelan
8/9/2010	8/31/2012	100,000	3,178	103,178	0.0060	17,196,333	Janel & Ryan Zaluski
8/31/2010	5/31/2012	61,109	1,647	62,756	0.0070	8,965,143	St. Johns LLC
9/30/2010	9/30/2012	21,882	446	22,328	0.0070	3,189,714	St. Johns LLC
11/9/2010	11/30/2012	25,000	290	25,290	0.0050	5,058,000	Richard Staelin
11/22/2010	11/30/2012	125,600	1,101	126,701	0.0036	35,194,722	St. Johns LLC
11/29/2010	11/30/2012	100,000	723	100,723	0.0039	25,826,410	St. Johns LLC
12/7/2010	12/31/2010	87,760	481	88,241	0.0046	19,182,826	St. Johns LLC
12/9/2010	12/31/2012	78,333	395	78,728	0.0046	17,114,783	Richard Staelin
12/31/2010	12/31/2012	25,274	5	25,279	0.0046	5,495,435	St. Johns LLC
12/31/2010	12/31/2012	52,095	11	52,106	0.0046	11,327,391	Jarenz
		$ 795,994	$ 15,156	$ 811,150	$ 0.0048	168,011,291	

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.

Robert Whelan is the son and Janel Zaluski is a daughter of the President of the Company. Additionally, St. Johns, LLC is a limited liability company, which is owned by family members of the President of the Company. Richard Staelin is a member of the Board of Directors.

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. Accordingly, there have been no beneficial conversion features contained in the convertible promissory note agreements issued during 2010.

Interest expense incurred on the other related party notes payable for the years ended December 31, 2010 and 2009 was $57,388, and $124,800, respectively

Future commitments of all related party notes payable, excluding unamortized discount, at December 31, 2010 are as follows:

2011	$ 1,145,437
2012	2,469,096
2013	-
2014	-
2015	724,145
Thereafter	-
	$ 4,338,678

NOTE 9 – LOSS PER SHARE

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

Common Stock:	2010	2009
Weighted Average Number of Shares Outstanding - Basic	1,492,873,871	982,246,684
Effect of Dilutive Securities:		
Options and Warrants		-
Weighted Average Number of Shares Outstanding - Diluted	1,492,873,871	982,246,684
Options and Warrants Not Included Above (Antidilutive)		
Nonvested Restricted Share Awards	76,100,000	4,350,000
Options to Purchase Common Stock	-	350,000
Warrants to Purchase Common Stock	-	332,000
	76,100,000	5,032,000

NOTE 10 – SHARE BASED COMPENSATION

On November 30, 2004, as amended March 22, 2005, the Company adopted the BioElectronics Equity Incentive Plan ("the Plan"), for the purpose of providing incentives for officers, directors, consultants and key employees to promote the success of the Company, and to enhance the Company's ability to attract and retain the services of such persons. The Plan initially reserved 10 million shares of common stock for issuance, which was amended to 100 million shares on March 1, 2010. 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.

As of December 31, 2010, the Company had 17,565,000 shares available for future grant under the Plan.

Stock Option Awards

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, which was deemed to be fair value. The options vested over three years of continuous service and were exercisable over five years from the date of grant.

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

	Number of Shares	Aggregate Grant Date Fair Value (Restated)	Weighted Average Exercise Price
December 31, 2008	350,000	$ 72,703	$ 0.30
Granted	-	-	-
Exercised	-	-	-
Forfeited / Cancelled	-	-	-
December 31, 2009	350,000	72,703	0.30
Granted	-	-	-
Exercised	-	-	-
Forfeited / Cancelled	(350,000)	(72,703)	(0.30)
Outstanding, December 31, 2010	-	$ -	$ -

NOTE 10 – SHARE BASED COMPENSATION (CONTINUED)

Stock Option Awards (continued)

There was no compensation expense related to the stock options during the years ended December 31, 2010 and 2009.

Restricted Share Awards and Common Stock Issued for Services

During 2010, the Company issued nonvested restricted share awards to and common stock to employees, directors and consultants for the performance of services. Compensation cost related to the shares issued to consultants for services rendered were recorded based on the fair value of the services performed as that was deemed to be more readily available than the fair value of the common stock. In determining the number of shares to issue for the services rendered that was considered reasonable by the Board of Directors, the Company and the Board of Directors utilized the process in place for issuing shares upon conversion of convertible debt described previously. Where the Company issues fully vested, non-forfeitable shares of common stock that are not freely transferable at the time of issuance, in lieu of payment for services in cash, the number of shares to be issued are based on the invoice price of the services rendered and the estimated fair value of the shares traded on the OTC pink sheet market discounted to reflect the restriction on the shares issued for the services rendered.

Common Stock Issued to Consultants:

On March 18, 2010 the Company issued 1,000,000 shares of common stock for services rendered valued at $2,250 which was in accounts payable at December 31, 2009. These shares were value at $0.00225 per share, which represents the fair value of the services received.

On May 31, 2010, the Company issued an aggregate of 2,200,000 shares of common stock in exchange for services rendered valued at $4,950 which was in accounts payable at December 31, 2009. The shares were valued at $0.00225 per share, which represents the fair value of the services received.

On November 10, 2010 the Company issued 2,500,000 shares for settlement of accounts payable of $12,500. The shares were valued at $0.005 per share, which represents the fair value of the services received.

On December 31, 2010 the Company issued 5,000,000 shares in exchange for services rendered valued at $26,250. The shares were valued at $0.00525, which represents the fair value of the services rendered.

Common Stock Issued to Related Parties and Directors

On November 17, 2010 the Company issued 2,500,000 shares with a fair value of $12,500 in exchange for services rendedred by eMarkets Group, a company owned by a relative of the President and a Board Member. eMarkets Group is also a distributor of the Company’s products. The per share price of the shares issued was $0.00315, which represented the OTC pink sheet closing price discounted by 50%, similar to the discount applied to the OTC stock price for the convertible debt previously discussed.

On December 17, 2010 the Company issued 2,500,000 shares with a fair value of $12,500 to Richard Staelin, a member of the Board of Directors. The per share price of the shares issued was $0.005, which represented the OTC pink sheet closing bid price discounted by 50%, similar to the discount applied to the OTC stock price for the convertible debt previously discussed.

NOTE 10 – SHARE BASED COMPENSATION (CONTINUED)

Common Stock Issued to Employees

On December 17, 2010, the Company issued an aggregate of 3,500,000 shares of common stock to its employees as a bonus for services rendered during 2010. The total fair value of the common stock issued was $17,500 at a price of $0.005 per share, which represented the OTC pink sheet closing bid price discounted by 50%, similar to the discount applied to the OTC stock price for the convertible debt previously discussed. The $17,500 was recorded as compensation cost in other general and administration expense on the statement of operations for the year ended December 31, 2010.

Nonvested Restricted Share Awards

In addition to the common stock issued to consultants, directors and employees, 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 December 31, 2010, and changes during the year ended December 31, 2010, is as follows:

Nonvested shares	Shares	Weighted-average grant date fair value
Balance at December 31, 2009	4,350,000	$ 0.0291
Granted	58,000,000	0.0114
Vested	(1,450,000)	0.0291
Forfeited	(1,000,000)	0.0122
Balance at December 31, 2010	59,900,000	$ 0.0420

Total compensation cost related to the restricted stock awards granted to employees was $217,444 and $-0- for the years ended December 31, 2010 and 2009, 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 2.4 year weighted-average period is approximately $558,000.

Total compensation cost related to the restricted stock awards granted to Non-employees was $76,400 and $-0- for the years ended December 31, 2010 and 2009, respectively.

NOTE 10 – SHARE BASED COMPENSATION (CONTINUED)

Nonvested Restricted Share Awards (continued)

A summary of the status of the Company's nonvested shares granted to employees as of December 31, 2010, and changes during the year ended December 31, 2010, is as follows:

Nonvested shares	Shares	Weighted-average grant date fair value
Balance at December 31, 2009	-	$ -
Granted	15,200,000	0.0181
Vested	-	-
Forfeited	-	-
Balance at December 31, 2010	15,200,000	$ 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 2.4 year weighted-average period is approximately $199,000.

NOTE 11 - VENDOR AND CUSTOMER CONCENTRATION

During the year ended December 31, 2010, three vendors accounted for more than 10% of the Company's total purchases, $318,342, $130,135, and $101,274, totaling 59% of total purchases. Four customers accounted for approximately 52% (approximately 18%, 12%, 12% and 11% respectively) of total revenues for 2010.

During the year ended December 31, 2009, four vendors accounted for more than 10% of the Company's total purchases, $101,094, $52,001, $40,946, and $30,125, totaling 78% of total purchases. Three customers accounted for approximately 49%`` (23%, 14% and 13%, respectively) of restated total revenues for 2009 (See Note 16).

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 warehouse, manufacturing and office space under various non-cancelable operating leases expiring in 2011. The Company also 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 December 31 for each of the next five years and in the aggregate, are as follows:

2011	$ 52,403
2012	2,693
2013	2,693
2014	1,346
2015	-
Thereafter	-
	$ 59,135

NOTE 12 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

Operating Leases (continued)

The amount of rental expenses were $83,398 and $71,655 for the years ended December 31, 2010 and December 31, 2009, respectively.

Litigation

General

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

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

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. In November 2010, the case was settled for a lump sum payment of $235,000, which was accrued for and expensed the quarter ended September 30, 2010 and subsequently paid in November 2010.

NOTE 13 – INCOME TAXES

The income tax provision in the statements of operations for the years ended December 31, 2010 and 2009 consists of:

	2010	2009
Current Tax Expense:		
U.S. Federal	$ -	$ -
State and Local	-	-
	-	-
Deferred Tax Expense:		
U.S. Federal	-	-
State and Local	-	-
	-	-
Total Income Tax Expense	$ -	$ -

NOTE 13 – INCOME TAXES (CONTINUED)

For the years ended December 31, 2010 and 2009, the difference between the expected income tax benefit computed by applying the U.S. federal corporate income tax rate of 35% to loss before income taxes, and the reported income tax benefit is as follows:

	2010	2009 (Restated)
Federal Income Tax Benefit, at Statutory Tax Rate	$ (1,044,366)	$ (226,646)
State Income Taxes, Net of Related Federal Benefit	(158,405)	(28,185)
Nondeductible Expenses	5,552	37,876
Other	4,937	4,808
Change in Valuation Allowance	1,192,282	212,147
Total Income Tax Expense	$ -	$ -

The tax effects of temporary differences that give rise to the deferred tax assets and deferred tax liabilities at December 31, 2010 and 2009 are presented below:

	2010	2009 (Restated)
Allowance for Doubtful Accounts	$ -	$ 13,639
Charitable Contributions	2,503	2,503
Accrued Expenses	121,891	121,891
Discount From Beneficial Conversion	25,832	35,976
Share-based Compensation	135,908	-
Deferred Tax Assets - Current	286,134	174,009
Less: Valuation Allowance	(286,134)	(174,009)
Net Deferred Tax Assets - Current	-	-
Deferred Tax Assets - Non-Current:		
Net Operating Loss Carryforwards	3,220,600	2,016,221
Capitalized Start-up Expenses	1,804,422	1,928,644
Deferred Tax Assets - Non-Current	5,025,022	3,944,865
Less: Valuation Allowance	(5,025,022)	(3,944,865)
Net Deferred Tax Assets - Non-Current	-	-
Total Net Deferred Tax Asset	$ -	$ -

As of December 31, 2010, the Company had net operating losses of approximately $8.0 million that can be carried forward for up to twenty years and deducted against future taxable income (December 31, 2009 - $5.0 million). The net operating losses expire in various years through 2030. The impact of the restatements discussed in Note 16 resulted in an increase in the prior year net operating loss carryforwards of approximately $800,000 and resulting deferred tax asset of approximately $300,000, offset by an increase of the valuation allowance of $300,000.

NOTE 13 – INCOME TAXES (CONTINUED)

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 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, 2010 and 2009 and that a full valuation allowance is needed to reduce the net deferred tax asset to $0 for each year. The valuation allowance at December 31, 2010 and 2009 was $5,300,000 and $4,119,000 (restated), respectively. The increase in deferred tax assets and the related valuation allowance was approximately $1,192,000 for the year ended December 31, 2010 and $212,000 for the year ended December 31, 2009, primarily due to the operating losses of the Company.

NOTE 14 – RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in Note 8, 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 company's line of products 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.

Revenues for the year ended December 31, 2010 include $2,473 for sales and $-0- for cost of goods sold to eMarkets, a related party. (See Note 16)

NOTE 15 – SUBSEQUENT EVENTS

On April 19th, 2011, upon approval by the Board of Directors, the Company filed a form 15 with the Securities and Exchange Commission (SEC), terminating registration of the Company's stock under Section 12(g) of the Securities Exchange Act of 1934. As a result of this filing, the Company will cease filing periodic reports with the SEC.

In April 2011, the Company agreed to a settlement with the Internal Revenue Service (IRS) with regards to a payroll tax audit of 2007 performed by the IRS. As part of the settlement, the Company does not have to pay any back taxes but instead agreed to pay a penalty of $44,000 for the Company's failure to fully comply with the documentation requirements regarding the Company's designation of certain individuals receiving compensation for services as employees or independent contractors. As of the date of these financial statements the Company has not received notification that the IRS has accepted the Company's agreement to settle. However, it is management's belief that the IRS will accept the Company's agreement to settle and no additional monies will be owed related to the 2007 payroll tax audit.

The Company has evaluated events and transactions for potential recognition or disclosure through May 6, 2011, the date the financial statements were available to be issued
.

NOTE 16 – RESTATEMENTS

On April 18, 2011, the Board of Directors and Audit Committee of the Company concluded, following discussions with the Company's management and independent registered public accounting firm, that the Company's audited financial statements as of and for the year ended December 31, 2009 should no longer be relied upon.

NOTE 16 – RESTATEMENTS (CONTINUED)

In connection with the preparation of the Company's financial statements for the year ended December 31, 2010 and its review of comments from the Securities and Exchange Commission with respect to the Company's prior financial statements, management concluded that errors were made in accounting for (i) convertible notes issued by the Company, (ii) "bill and hold" transactions entered into during 2009, and (iii) stock options originally issued in 2006.

(i) Convertible Notes

Because the Company failed to properly account for the beneficial conversion features incorporated in the convertible notes issued by the Company prior to and during the periods covered by the prior financial statements, related party notes payable included in long-term liabilities on the December 31, 2009 balance sheet were overstated by approximately $109,000, and additional paid-in-capital was understated by approximately $841,000.

The failure to properly account for the beneficial conversion features also resulted in an understatement of interest expense by approximately $95,000 for the year ended December 31, 2009 and by approximately $732,000 for the period from April 10, 2000 (Inception) through December 31, 2009.

(ii) Bill and Hold Transaction

The Company incorrectly recognized revenues on transactions previously characterized as "bill and hold". One of the transactions with revenue of approximately $216,000 and cost of goods sold of approximately $59,000 erroneously recognized in 2009 and inventory with a value of approximately was with eMarkets Group, LLC, a related party, and the other transaction with a distributor consisting of revenue of $150,000 and cost of goods sold of approximately $28,000. As a result, the Company understated its inventory and deferred revenue liabilities by approximately $87,000 and $366,000, respectively, as of December 31, 2009.

In addition, these errors resulted in the overstatement of revenue and cost of goods sold by approximately $366,000 and $87,000, respectively, for the year ended December 31, 2009 and for the period from April 10, 2000 (Inception) through December 31, 2009.

During 2010, approximately $32,000 of the deferred revenue outstanding at December 31, 2009 was recognized as sales revenue related to goods shipped in 2010. In addition, $122,350 of the $150,000 deferred revenue outstanding at December 31, 2009 was recognized in December 2010 and recorded in Other Income on the accompanying statements of operations as a result of the cancellation of the distribution agreement and the relinquishment of the distributor's rights to the finished goods still on hand as of the cancellation date.

(iii) Stock Options

In 2006 the Company estimated the fair value of the stock options granted using an incorrect volatility amount of 40%. Management performed a corrected analysis using a volatility of 82%, which increased the fair value of the grants issued to approximately $73,000 from the previous fair value estimate of approximately $24,000. This error resulted in an understatement of additional paid-in-capital of approximately $49,000 as of December 31, 2009. This error had no impact to the statement of operations for the year ended December 31, 2009.

As a result of the errors discussed above, the Company's accumulated deficit was understated by approximately $1,062,000 as of December 31, 2009 and the net loss was understated by approximately $374,000 for the year ended December 31, 2009.