

BioMETRX
Form 10QSB
November 21, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

Quarterly Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

For the Quarter Period Ended
September 30, 2006

Commission File No. 0-15807

BIOMETRX, INC.

(Exact name of Registrant as specified in its Charter)

Delaware
(State or jurisdiction of incorporation or
organization)

31-1190725
(IRS Employer Identification No.)

500 North Broadway, Suite 204, Jericho, NY
(Address of Principal Executive Office)

11753
(Zip Code)

Registrant's telephone number, including area code: (516) 937-2828

N/A

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for a shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

The number of shares outstanding of the Registrant's Common Stock, \$.001 par value, as of November 17, 2006 was 8,394,157.

PART I - FINANCIAL INFORMATION

Item 1: Financial Statements (Unaudited)

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BIOMETRX, INC. AND SUBSIDIARIES
(A Development Stage Company)
CONDENSED CONSOLIDATED BALANCE SHEET
September 30, 2006
(Unaudited)

ASSETS

Current Assets:

Cash	\$	97,662
Marketable Securities		231
Inventory		507,881
Other Current Assets		7,421
Total Current Assets		613,194

Property and Equipment, net

59,302

Other Assets:

Deferred Finance Costs - net		146,225
Security Deposit		17,045
Total Other Assets		163,270

TOTAL ASSETS	\$	835,765
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LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities:

Notes Payable	\$	455,000
Accounts Payable		733,891
Accrued Liabilities		53,416
Total Current Liabilities		1,242,306

Long-Term Liabilities:

8% Convertible Notes, net of unamortized discounts of \$1,597,808		203,836
TOTAL LIABILITIES		1,446,142

COMMITMENTS AND CONTINGENCIES

Stockholders' Deficit:

Preferred Stock, \$.01 par value; 10,000,000 shares authorized no shares issued and outstanding	-
Common Stock, \$.001 par value; 25,000,000 shares authorized 8,294,157 shares issued and outstanding	8,294
Additional Paid-In-Capital	22,998,887
Deferred Finance Costs	(657,613)

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Deferred Compensation	(361,563)
Deficit Accumulated in the Development Stage	(22,598,381)
Total Stockholders' Equity	(610,378)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 835,765

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

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BIOMETRX, INC. AND SUBSIDIARIES
(A Development Stage Company)
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
(Unaudited)

	FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2006	FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2005	FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006	FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2005	FOR THE PERIOD FEBRUARY 1, 2001 (INCEPTION) TO SEPTEMBER 30, 2006
REVENUES	\$ -	\$ -	\$ -	\$ -	\$ -
Costs and Expenses:					
General and Administrative Expenses	572,473	266,541	1,655,321	2,566,973	3,812,660
Research and Development Expenses	19,622	71,658	662,066	259,928	1,181,232
Contract Buyouts Issued In Stock	-	-	-	-	356,000
Amortization of Deferred Compensation	642,337	-	1,798,951	-	2,236,937
Amortization of Deferred Finance Costs	336,625	-	413,784	-	413,784
Compensatory Element of Stock and Option Issuances	283,701	129,625	5,072,513	5,591,708	14,120,014
Compensatory Element of Stock Issuances - Legal Settlement	-	-	368,750	-	368,750
Total Costs and Expenses	1,854,758	467,824	9,971,385	8,418,609	22,489,377
Loss before Other Income (Expense)	(1,854,758)	(467,824)	(9,971,385)	(8,418,609)	(22,489,377)
Other Income (Expense):					
Finance Costs	(82,742)	-	(86,703)	-	(93,715)
Unrealized Gain (Loss) on Marketable Securities	(355)	(16,211)	(230)	(20,574)	(6,315)
Total Other Income (Expense)	(83,097)	(16,211)	(86,933)	(20,574)	(100,030)
Loss from Operations	(1,937,855)	(484,035)	(10,058,318)	(8,439,183)	(22,589,407)
Preferred Stock Dividend	-	-	(8,975)	-	(8,975)
Net Loss Allocated to Common Shareholders	\$ (1,937,855)	\$ (484,035)	\$ (10,067,293)	\$ (8,439,183)	\$ (22,598,381)
Weighted Average Common Shares - Outstanding	7,992,266	4,324,620	7,262,684	3,710,202	

Net Loss per Common Share (Basic and Diluted)	\$	(0.24)	\$	(0.11)	\$	(1.39)	\$	(2.27)
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The accompanying notes are an integral part of these financial statements.

BIOMETRX INC. AND SUBSIDIARIES
(A Development Stage Company)
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006 (UNAUDITED)	FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2005 (UNAUDITED)	FOR THE PERIOD FEBRUARY 1, 2001 (INCEPTION) TO SEPTEMBER 30, 2006 (UNAUDITED)
<u>Cash Flows from Operating Activities:</u>			
Net Loss	\$ (10,058,318)	\$ (8,439,183)	\$ (22,589,406)
Adjustment to reconcile net loss to net cash used in operating activities:			
Non-Cash Item adjustments:			
Compensatory Element of Stock and Warrant Issuances	5,474,262	5,565,625	14,877,763
Amortization of Deferred Compensation	1,781,451		2,219,437
Amortization of Deferred Finance Costs	413,784		413,784
Depreciation	864		864
Unrealized (Gain) Loss on Marketable Securities	230	5,726	6,315
Change in Operating Assets and Liabilities:			
(Increase) Decrease in Prepaid Expenses	-	(27,669)	(59,150)
(Increase) in Inventory	(507,881)		(507,881)
(Increase) Decrease in Other Current Assets	54,732	(3,000)	54,732
(Increase) in Security Deposits	(509)	(5,860)	(17,045)
Increase (Decrease) in Accounts Payable	512,008	1,759,320	548,084
Increase (Decrease) in Accrued Liabilities	69,362	10,369	106,365
Increase (Decrease) in Accrued Payroll - Related Parties	-	134,000	960,000
Net Cash Used in Operating Activities	(2,260,015)	(1,000,672)	(3,986,138)
<u>Cash Flows from Investing Activities:</u>			
Purchase of Fixed Assets	(60,166)	-	(60,166)
Net Cash Used in Investing Activities	(60,166)	-	(60,166)
<u>Cash Flows from Financing Activities:</u>			
Restricted Cash	66,427	(24,126)	(30,000)
Proceeds of Loans	-	-	25,000
Proceeds from Issuance of Notes Payable	1,405,000	-	1,405,000
Advances to Stockholder/Officer	-		(381,598)
Proceeds from Issuance of Preferred Stock	650,000		650,000

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Repayment of Related Party Loans	-	(107,490)	(109,736)
Advances to Employee	-		(3,000)
Repayments of Loans	-	(81,816)	(25,000)
Merger Related Advances	-	(75,000)	-
Deferred Finance Costs - Bonds	(107,500)	-	(107,500)
Proceeds from Issuances of Common Stock	372,000	1,440,000	3,096,750
Commissions Paid on Sales of Common Stock	(152,200)	(122,500)	(375,950)
Net Cash Provided by Financing Activities	2,233,727	1,029,068	4,143,966
Net Increase (Decrease) in Cash	(86,454)	28,396	97,662
Cash, Beginning	184,116	31,111	-
Cash, Ending	\$ 97,662	\$ 59,507	\$ 97,662

Supplemental Cash Flow Information:

Cash Paid During the Period for:

Interest	\$ -	\$ -	\$ 7,012
Income Taxes	\$ -	\$ -	\$ -

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

Supplemental Disclosures of Cash Flow Information:

Non Cash Financing Activities:

Common Stock Issued as Commissions on Sale of Common Stock	\$ 656,489	\$ 10,000	\$ 1,825,407
Accrued Commissions on Sales of Sales of Common Stock	\$ 431,706	\$ 52,500	\$ 656,489
Issuance of Common Stock as Payment of Accrued Officers' Salaries	\$ 108,402	\$ 470,000	\$ 578,402
Issuance of Common Stock - Deferred Finance Costs	\$ 2,248,354	\$ -	\$ 2,248,354
Issuance of Common Stock - Deferred Compensation	\$ 1,726,000	\$ 310,000	\$ 2,581,000
Application of Loans Receivable - Officer Against Accrued Compensation	\$ 201,598	\$ 180,000	\$ 851,598
Common Stock Issued as Penalty Shares for Non-Registration	\$ 558,000	\$ -	\$ 1,187,000
Cashless Exercise of Stock Options - Related Party	\$ 250,000	\$ -	\$ 250,000
Accrued Deferred Finance Costs	\$ (67,948)	\$ -	\$ (67,948)
Accrued Finder's Fees - Preferred Stock	\$ 32,500	\$ -	\$ 32,500
Deferred Finance Costs on the Issuance of Warrants	\$ 182,716	\$ -	\$ 182,716
Preferred Stock Dividend	\$ 8,975	\$ -	\$ 8,975
Issuance of Common Stock as Payment of Accrued Expenses	\$ -	\$ 1,825,000	\$ 1,825,000

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

BIOMETRX, INC

(A Development Stage Company)

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1- Basis of Presentation

In the opinion of the Company's management, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the information set forth therein. These financial statements are condensed and therefore do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements.

Results of operations for interim periods are not necessarily indicative of the results of operations for the full year.

The Company incurred a net loss of \$10,067,293 for the nine months ended September 30, 2006 and has a working capital deficit of \$406,541. This raises substantial doubt about the Company's ability to continue as a going concern.

There can be no assurance that sufficient funds will be generated during the next year or thereafter from operations or that funds will be available from external sources such as debt or equity financings or other potential sources. The lack of additional capital could force the Company to curtail or cease operations and would, therefore, have an adverse effect on its business. Furthermore, there can be no assurance that any such required funds, if available, will be available on attractive terms or that they will not have significant dilutive effect on the Company's existing stockholders.

The accompanying condensed financial statements do not include any adjustments related to the recoverability or classification of asset-carrying amounts or the amounts and classifications of liabilities that may result should the Company be unable to continue as a going concern.

Note 2- Recently Issued Accounting Pronouncements

Statement of Financial Accounting Standards ("SFAS") No. 146, "Accounting for Costs Associated with Exit or Disposal Activities", SFAS No. 147, "Acquisitions of Certain Financial Institutions - an Amendment of FASB Statements No. 72 and 144 and FASB Interpretation No. 9", SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an Amendment of FASB Statement No. 123", SFAS No. 149, "Amendment of Statement 33 on Derivative Instruments and Hedging Activities", and SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity", were recently issued. SFAS No. 146, 147, 148, 149 and 150 have no current applicability to the Company or their effect on the financial statements would not have been significant.

In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement No. 123R ("SFAS 123R") "Share Based Payment, "a revision of Statement No. 123, "Accounting for Stock Based Compensation." This standard requires the Company to measure the cost of employee services received in exchange for equity awards based on grant date fair value of the awards. The Company is required to adopt SFAS 123R effective January 1, 2006. The standard provides for a prospective application. Under this method, the Company will begin recognizing compensation cost for equity based compensation for all new or modified grants after the date of adoption.

BIOMETRX, INC

(A Development Stage Company)

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

In addition, the Company will recognize the unvested portion of the grant date fair value of awards issued prior to the adoption based on the fair values previously calculated for disclosure purposes. At September 30, 2006, the Company had 200,000 unvested options outstanding.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Non-monetary Assets," ("SFAS 153"). SFAS 153 amends Accounting Principles Board ("APB") Opinion No. 29, Accounting for Non-monetary Transactions," to require exchanges of non-monetary assets are accounted for at fair value, rather than carryover basis. Non-monetary exchanges that lack commercial substance are exempt from this requirement.

SFAS 153 is effective for non-monetary exchanges entered into in fiscal years beginning after June 15, 2005. The Company does not routinely enter into exchanges that could be considered non-monetary; accordingly the Company does not expect adoption of SFAS 153 to have a material impact on the Company's financial statements.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities - an Interpretation of Accounting Research Bulletin No. 51" (FIN No. 46"). This interpretation provides guidance related to identifying variable interest entities (previously known generally as special purpose entities or SPEs) and determining whether such entities should be consolidated. Certain disclosures are required when FIN No. 46 becomes effective if it is reasonably possible that a company will consolidate or disclose information about a variable interest entity when it initially applies FIN No. 46. This interpretation must be applied immediately to variable interest entities created or obtained after January 31, 2003. For those variable interest entities created or obtained on or before January 31, 2003, the Company must apply the provisions of FIN No. 46 for the year ended December 31, 2003. FIN No. 46 did not apply to the Company's financial position or results of operations.

Note 3- Stockholder's Equity

Common Stock

On January 5, 2006 the Company amended its 2005 Equity Incentive Plan by allowing for a "cashless exercise" of stock options. When this provision is utilized, the shareholder will return the cost of the exercise of the option in shares back to the Company.

During the month of January 2006, Russell Kuhn ("Kuhn") provided \$147,000 to the Company, and the Company agreed to issue him 183,750 shares (\$.80 per share) of common stock. In addition, during February 2006, the Company issued to Kuhn 281,250 shares of common stock upon exercise of warrants with an exercise price of \$.80 per share for proceeds of \$225,000. In connection with this transaction, the Company paid a finder's fee to Harbor View of \$37,200 and accrued commissions payable to Harbor View of 102,300 shares of its common stock.

On February 27, 2006, pursuant to a consulting agreement between the Company and Empire Relations Group, the Company issued 25,000 shares of restricted common stock valued at \$150,000.

On February 8, 2006, the Company entered into a one (1) year consulting agreement with Kuhn, and issued him 250,000 shares of common stock valued at \$875,000 under the Company's 2005 Equity Incentive Plan. Pursuant to the agreement, Mr. Kuhn is to provide the Company with consulting services in connection with corporate finance relations and, introduce the Company to various lending sources, investment advisors, or other members of the financial community with whom he has established relationships

BIOMETRX, INC

(A Development Stage Company)

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

On March 14, 2006, the Company filed an amendment to its Certificate of Incorporation to effect a reverse split of all of the outstanding shares of its Common Stock at a ratio of one-for-four and increased the number of authorized shares of its Common Stock to 25,000,000 shares and decrease the par value of the Company's common stock to \$.001 per share. The Company's amended certificate of incorporation also authorized the issuance of up to 10,000,000 shares of \$.01 par value preferred stock, with such designation rights and preferences as may be determined from time to time by the Board of Directors. All share and per share data have been retroactively restated to reflect this recapitalization.

On March 21, 2006, Mr. Basile exercised 250,000 stock options at \$1.00 per share pursuant to his amended employment agreement dated February 6, 2006. Mr. Basile exercised the options via "cash-less exercise." In connection with the exercise of the option, the holder surrendered to the Company 70,422 shares issuable upon exercise of the options in payment of the aggregate exercise price, based upon a \$3.55 per share market price on the date of exercise.

On March 21, 2006, the Company received debt financing in the aggregate amount of \$100,000 from Hane Petri and Joseph Panico. The principal and interest of 12% per annum is due on June 21, 2006. The note carries a default rate of 18% per annum. In addition, the Company will issue an aggregate of 25,000 shares of restricted common stock valued at \$71,250 to Petri and Panico as deferred debt issuance costs.

On May 4, 2006, the Company issued 20,000 restricted shares of its common stock valued at \$71,000 to Pasadena Capital Partners, LLC pursuant to a Letter of Engagement entered into between the parties on March 17, 2006.

On May 3, 2006, the Company issued 180,000 restricted shares of its common stock valued at \$630,000 to New Castle Consulting, LLC pursuant to a Consulting Agreement entered into between the parties on April 10, 2006.

On May 11, 2006, the Company issued 125,000 restricted shares of its common stock valued at \$368,750 to Santo Santopadre as a settlement of a dispute between Mr. Santopadre and the Company.

On June 5, 2006 the Company issued 54,201 restricted shares of its common stock to Mark Basile in lieu of indebtedness to Mr. Basile by the Company.

On July 17, 2006, the Company issued 2,827 shares valued at \$10,000 to Mr. Dennis Rutowicz. These shares were issued to Mr Rutowicz to correct a mistake whereby Mr. Rutowicz was accidentally omitted from a list of investors in the Company.

BIOMETRX, INC

(A Development Stage Company)

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

On May 8, 2006, the Company issued an aggregate of 25,000 restricted shares of its common stock to Jane Petri (12,500) and Joseph Panico (12,500) as consideration for extending an aggregate of \$100,000 loans to the Company. The Company recorded deferred finance costs of \$38,000 in connection with this issuance.

On July 19, 2006, the Company issued an aggregate of 20,000 restricted shares of its common stock to Jane Petri (10,000) and Joseph Panico (10,000) as an incentive for them extending the maturity dates of their respective loans.

On August 4, 2006, the Company granted J. Richard Iler 400,000 options to purchase shares of its common stock and issued 100,000 shares of its common stock valued at \$85,000 to Mr. Iler as a bonus. 200,000 of the options are exercisable at \$1.05 per share and 200,000 options are exercisable at \$1.10 per share. The 200,000 options exercisable at \$1.05 were issued under the Company's 2005 Incentive Equity Plan (the "Plan") and the other 200,000 options were issued outside the Plan. The securities were issued to Mr. Iler pursuant to his employment agreement. On October 19, 2006, Mr. Iler returned 100,000 options issued under the Plan in exchange for 100,000 options issued outside of the Plan.

On August 14, 2006, the Company granted Lorraine Yarde 600,000 options to purchase shares of its common stock issued 150,000 shares of its common stock valued at \$120,000 to Ms. Yarde as a bonus. 200,000 of the options are exercisable at \$1.00 per share, 200,000 options are exercisable at \$1.25 per share and 200,000 options are exercisable at \$1.50 per share. The 200,000 options exercisable at \$1.00 were issued under the Plan and the other 400,000 options were issued outside the Plan. On October 19, 2006, Ms. Yarde returned 100,000 options issued under the Plan in exchange for 100,000 options issued outside of the Plan.

On September 21, 2006, the Company issued Jay Pitlake 50,000 shares of its common stock as a finder's fee in connection with the sale of the units described above.

The Company entered into a Securities Purchase Agreement dated September 18, 2006, with Jane Petri and Joseph Panico relating to the issuance and sale, in a private placement exempt from the registration requirements of the Securities Act of the Company's 10% Promissory Notes due March 15, 2007 in the aggregate principal amount of \$400,000, 400,000 Common Stock Purchase Warrants and 160,000 Shares of the Company's Common Stock. In connection with this transaction the two investors provided the Company with \$300,000 and exchanged \$100,000 in Notes, described above, that were previously issued by the Company to the investors.

Each Warrant entitles the holder to purchase one share of the Company's Common Stock at an exercise price of \$1.00 per share commencing on the date of issuance and expiring at the close of business on September 15, 2011.

As part of the Private Placement, the Company agreed to register the 400,000 shares of Common Stock underlying the Warrants and the 160,000 shares of the Common Stock issued as part of this Private Placement.

The Company entered into a Securities Purchase Agreement dated September 30, 2006, with Dorothy Christofides (\$30,000) and Barry and Marci Mainzer (\$25,000) relating to the issuance and sale, in a private placement exempt from the registration requirements of the Securities Act of the Company's 10% Promissory Notes due March 30, 2007 in the aggregate principal amount of \$55,000, 55,000 Common Stock Purchase Warrants and 22,000 Shares of the Company's Common Stock.

BIOMETRX, INC*(A Development Stage Company)***NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

Each Warrant entitles the holder to purchase one share of the Company's Common Stock at an exercise price of \$1.00 per share commencing on the date of issuance and expiring at the close of business on September 15, 2011.

As part of the Private Placement, the Company agreed to register the 55,000 shares of Common Stock underlying the Warrants and the 22,000 shares of the Common Stock issued as part of this Private Placement.

STOCK OPTIONS:

Stock option share activity and weighted average exercise price under these plans for the nine months ended September 30, 2006 is as follows:

<u>2005 Equity Incentive Plan:</u>	Number of Options	Weighted Average Exercise Price
Balance - January 1, 2006	375,000	\$ 2.00
Options Granted in 2006	250,000	\$ 1.00
Options Exercised in 2006	(250,000)	\$ 1.00
Balance - September 30, 2006	375,000	\$ 2.00

<u>Other Options:</u>	Number of Options	Weighted Average Exercise Price
Balance - January 1, 2006	25,000	\$ 0.40
Options Granted in 2006	1,000,000	\$ 3.50
Options Expiring in 2006	(18,750)	\$ 0.40
Balance- September 30, 2006	1,006,250	\$ 3.48

BIOMETRX, INC
(A Development Stage Company)
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

STOCK WARRANTS:

A summary of warrant activity for the nine months ended September 30, 2006 and 2005 is as follows:

	2006		2005	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Balance - January 1,	475,495	\$ 1.62	-	\$ -
Granted	2,560,000	\$ 1.23	62,500	\$ 2.00
Exercised	(281,250)	\$ 0.80	-	\$ -
Expired	-		-	\$ -
Balance September 30,	2,754,245	\$ 1.35	62,500	\$ 2.00

Note 4 -Convertible Notes Payable

On June 29, 2006, the Company entered into a Securities Purchase Agreement dated as of June 29, 2006, with four investors relating to the issuance and sale, in a private placement exempt from the registration requirements of the Securities Act of 1933, as amended, of units (the "Units") consisting of 8% Convertible Notes in the principal amount of \$950,000 ("Notes"), Series A Common Stock Purchase Warrants ("A Warrants") and Series B Common Stock Purchase Warrants ("B Warrants"). In addition, the company entered into an Exchange Agreement with the two investors who purchased \$650,000 of the Preferred Stock Units, previously reported on Form 8-K dated April 28, 2006 whereby the Company agreed to issue the Units in exchange for the return and cancellation of the previously issued Preferred Stock Units. Accordingly, at closing the Company issued its 8% Convertible Notes in the aggregate principal amount of \$1,600,000, 1,600,000 A Warrants and 800,000 B Warrants to the Investors. The Company also issued an aggregate of 128,000 shares of its common stock to the investors representing one year's of prepaid interest on the Notes.

The Notes mature 24 months from the closing. The Notes are convertible at the option of the holder into the Company's common stock at the rate of \$1.00 per share. The Notes are mandatorily convertible into the Company's common stock if the closing bid price of the Company's common stock is above \$2.50 per share for ten (10) consecutive trading days and if the daily volume for the same period exceeds 100,000 shares per day. The Company may redeem the Notes for 125% of the principal amount of the Note together with all accrued and unpaid interest provided that (i) an event of default has not occurred, and (ii) an effective registration statement covering the shares underlying the Note exists.

Each A Warrant entitles the holder to purchase one share of the Company's common stock at an exercise price of \$1.75 per share commencing on the date of issuance and expiring at the close of business on the fifth anniversary of the issuance date. Each B Warrant entitles the holder to purchase one share of the Company's common stock at an exercise price of \$.10 per share commencing 181 days after issuance and expiring at the close of business on the fifth anniversary of the initial exercise date. Notwithstanding the foregoing if the Company provides the holder of a B Warrant with validation and acknowledgment, in the form of bona fide purchase order demonstrating that at least

\$1,000,000 of the Company's products have been ordered, other than its initial order from a national retailer in the amount of approximately 23,000 garage door opening units, within 181 days after the date of the Securities Purchase Agreement, the B Warrants shall automatically terminate. Both the A and B Warrants contain provisions that protect the holder against dilution by adjustment of the exercise price in certain events including, but not limited to, stock dividends, stock splits, reclassifications, or mergers.

BIOMETRX, INC

(A Development Stage Company)

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Pursuant to the Selling Agent Letter Agreement between the Company and the Selling Agent, the Selling Agent was paid a cash fee of \$95,000 (10% of the aggregate purchase price of the Units sold to the subscribers) in addition to the \$75,000 it received on April 28, 2006 inclusive of \$10,000 in expenses. The Company also issued the Selling Agent a warrant to purchase 160,000 shares of its common stock on the same terms as the A Warrants. In addition, the Company paid \$15,000 to the Selling Agent's counsel and \$32,500 to its counsel.

The Company recorded a deferred debt discount in the amount of \$1,600,000 to reflect the beneficial conversion feature of the convertible debt and the value of the warrants. The beneficial conversion feature, was recorded pursuant to Emerging Issues Task Force ("EITF") 00-27: Application of EITF No. 98-5, "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable conversion Ratios," to certain convertible instruments. In accordance with EITF 00-27, the Company evaluated the value of the beneficial conversion feature and recorded this amount (\$560,000) as a reduction of the carrying amount of the convertible debt and as an addition to paid-in capital. Additionally, the fair value of the warrants (\$1,040,000) was calculated and recorded as a further reduction to the carrying amount of the convertible debt and as addition to paid-in capital.

The Company is amortizing the discount over the term of the debt. Amortization of the debt discount for the nine months ended September 30, 2006 was \$203,836, and this amortization is recorded as interest expense for the value of the warrants and the value of the beneficial conversion feature.

As part of the Private Placement, the Company entered into a registration rights agreement (the "Registration Rights Agreement") with each subscriber who purchased Units in the Private Placement. Under the Registration Rights Agreement, the Company is obligated to file a registration statement (the "Registration Statement") on Form SB-2, relating to the resale by the holders of the Common Stock underlying the Notes, Warrants and Selling Agent Warrant. If such Registration Statement was not filed by July 14, 2006, or does not become effective within 90 days after closing, the Company has agreed to pay to the investors 1.5% of the gross proceeds of the offering for each month in which the Company fails to comply with such requirements. The Company did not file the Registration Statement by July 14, 2006 and therefore is accruing 1.5% (\$24,000) of the gross proceeds for each month the Company fails to file the Registration Statement. For the quarter ended September 30, 2006 the Company recorded \$72,000 as additional finance costs.

BIOMETRX, INC

(A Development Stage Company)

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 5- Related Party Transactions

Loans Receivable - Stockholder/Officer

These advances were non-interest bearing, unsecured, and payable on demand. These advances were made to the Company's CEO and majority stockholder prior the reverse merger by bioMetrx Technologies. During the nine months ended September 30, 2006 the Company applied this loan to accrued salaries-officer.

Note 6 - Commitments and Contingencies

Employment Contracts

Mr. Basile's employment agreement, originally entered into in February 2002, and amended on February 6, 2006 has an initial term of five years from the date of the Amendment and a base salary of:

- \$360,000 for Calendar Year 2006
- \$500,000 for Calendar Year 2007
- \$560,000 for Calendar Year 2008
- \$620,000 for Calendar Year 2009
- \$700,000 for Calendar Year 2010

In addition to the base salary for 2006, Mr. Basile received a \$80,000 bonus upon execution of his amended contract. The \$80,000 will have to be returned to the Company on a pro rata basis should Mr. Basile terminate his employment with the Company prior to the first anniversary of his amended employment agreement. Mr. Basile will also receive a \$1,500 per month car allowance and a five million dollar (\$5,000,000) term life insurance policy naming Mr. Basile's family as the beneficiary.

Upon signing the Amendment, Mr. Basile also received options to purchase up to 1,250,000 shares of the Company's common stock, each expiring on January 31, 2010, at the following prices:

Number of Shares	Exercise Price
*250,000	\$1.00
250,000	\$2.00
250,000	\$3.00
250,000	\$4.00
250,000	\$5.00

*Shares are included under the Company's 2005 Equity Incentive Plan

After the initial term, Mr. Basile's agreement automatically renews for additional one-year periods. Under the terms of this agreement, any accrued compensation may be converted into shares of the Company's common stock at \$2.00 per share. Bonuses, if any, are to be paid at the sole discretion of the Board of Directors.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

In January 2004, the Company entered into a four-year employment agreement with Steven Kang. The annual base salary is \$120,000 per year. Under the terms of this agreement, any accrued compensation may be converted into shares of the Company's common stock at \$2.00 per share. After the initial term, Mr. Kang's agreement automatically renews for additional one-year periods. Mr. Kang received 62,500 shares of common stock on the second anniversary of his employment contract. Bonuses, if any, are to be paid at the sole discretion of the Board of Directors. Mr. Kang resigned during July 2006

Ms. Yarde's employment agreement, originally entered into in August 2005, and amended in January 2006, in the capacity of Chief Operating Officer, has an initial term of three years commencing on the date of the Amendment. Ms. Yarde's annual base salary is \$150,000 per year. Upon signing the Amendment Ms. Yarde was granted 250,000 options to purchase the Company's common stock at \$.40 per share. After the initial term, Ms. Yarde's agreement automatically renews for additional one-year periods. Bonuses, if any, are to be paid at the sole discretion of the Board of Directors.

On June 1, 2005 the Company entered into employment agreements with a new Chief Financial Officer and the former Chief Operating Officer. Each agreement calls for a base salary of \$18,000 for services on a part-time basis. If after the initial term the Company elects to continue the officer on a full time basis, the annual salaries will increase to \$80,000 for the Chief Financial Officer and \$90,000 for the former Chief Operating Officer. The employment agreements also provide for discretionary bonuses and other employment related benefits. Both agreements also call for the granting of stock options to purchase 25,000 shares at \$.40 per share of the Company's common stock at various times through the term of the agreement. Both agreements have an initial term of one year with an additional one year extension.

On August 4, 2006, the Company entered into an employment agreement with J. Richard Iler under which Mr. Iler will serve as our Chief Financial Officer for an initial term of three (3) years. The agreement calls for an annual base salary of \$180,000 for the first year with annual increases of 15% each year thereafter and a \$500 per month car allowance. Pursuant to the employment agreement, the Company granted J. Richard Iler 400,000 options to purchase shares of its common stock and issued 100,000 shares of its common stock to Mr. Iler as a bonus. 200,000 of the options are exercisable at \$1.05 per share and 200,000 options are exercisable at \$1.10 per share. The 200,000 options exercisable at \$1.05 were issued under the Company's 2005 Incentive Equity Plan (the "Plan") and the other 200,000 options were issued outside the Plan. Subsequently 100,000 options exercisable at \$1.05 were exchanged for non incentive options.

On August 14, 2006, the Company entered into a three (3) year employment agreement with Lorraine Yarde, the company's Chief Operating Officer. The employment agreement calls for an annual base salary of \$150,000 through December 31, 2006, \$175,000 for the calendar year 2007 and \$200,000 for the remainder of the term of the agreement. Pursuant to the employment agreement, the Company granted Lorraine Yarde 600,000 options to purchase shares of its common stock and issued 150,000 shares of its common stock to Ms. Yarde as a bonus. 200,000 of the options are exercisable at \$1.00 per share, 200,000 options are exercisable at \$1.25 per share and 200,000 options are exercisable at \$1.50 per share. The 200,000 options exercisable at \$1.00 were issued under the Companies Incentive Plan and the other 400,000 options were issued outside the Plan. Subsequently 100,000 options exercisable at \$1.00 were exchanged for non incentive options.

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On July 11, 2006, the Company and Mr. Steven Kang, the Company's Chief Technology Officer, entered into a termination agreement terminating his employment agreement dated January 1, 2004. Simultaneously therewith, Mr. Kang resigned as the Company's Chief Technology Officer and as director of the Company.

On July 11, 2006, the Company elected Ms. Lorraine Yarde to the Company's Board of Directors effective immediately.

On August 7, 2006, our board of directors accepted the resignation of Frank Giannuzzi as our Chief Financial Officer and as a member of our Board of Directors and appointed J. Richard Iler to serve as our Chief Financial Officer. Mr. Iler was also elected to the Company's Board of Directors.

Finder's Fee Agreement

The Company entered into a Finder's Fee Agreement with Harbor View Capital Group, Inc. ("Harbor View") on March 11, 2005 whereby the Company will compensate the Finder 15% cash for funds raised by Finder and shares of the Company's common stock equal to 15% of the amount of the financing attained by the Finder. Subsequently, this arrangement was amended by the two parties, to allow the Finder's Fee to be paid at the rates of 10% cash and 22% of the Company's common stock.

Consulting Agreements

In November, 2005 bioMetrx and its wholly owned subsidiary SmartTOUCH Medical, Inc. entered into a consulting agreement with Wendy Borow-Johnson. Pursuant to the agreement, bioMetrx issued to Ms. Borow-Johnson 62,500 shares of its common stock. In addition, upon the one (1) year anniversary of the consulting agreement, bioMetrx agreed to issue to Ms. Borow-Johnson an additional 62,500 shares of its common stock. Ms. Borow-Johnson shall be paid a monthly retainer of \$2,500 per month in addition to reimbursement of travel and other related expenses incurred. The consulting agreement also provides that in the event the Company spins off SmartTOUCH Medical, Ms. Borow-Johnson shall have the right to acquire a 20% stake in such company for an aggregate purchase price of \$10,000. Ms. Borow-Johnson shall provide services to SmartTOUCH Medical, Inc. those functions commonly associated with the role of President of the subsidiary.

During February 2006, the Company entered into a one (1) year consulting agreement with Kuhn, and issued him 250,000 shares of common stock valued at \$875,000 under the Company's 2005 Equity Incentive Plan. Pursuant to the agreement, Mr. Kuhn is to provide the Company with consulting services in connection with corporate finance relations and, introduce the Company to various lending sources, investment advisors, or other members of the financial community with whom he has established relationships

BIOMETRX, INC
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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Lease Obligations

The Company operates its business in leased facilities. The Company currently leases approximately 3719 square feet for its corporate office facilities located at 500 North Broadway, Jericho, New York for \$8,523 with increases annually on January 31. The lease expires January 31, 2010.

Approximate future minimum commitments under these leases are as follows:

Year Ending December 31,	
October 1, 2006 to December 31, 2006	\$ 25,568
2007	101,070
2008	109,249
2009	113,074
January 1, 2010 to January 31, 2010	9,449
	\$ 358,410

Rent expense under the office leases was approximately \$79,147 and \$17,213 for the nine months ended September 30, 2006 and 2005, respectively.

Legal Proceedings

From time to time, the Company is named in legal actions in the normal course of business. In the opinion of management, the outcome of these matters, if any, will not have a material impact on the financial condition or results of operations of the Company.

Note 7 - Subsequent Events

On October 20, 2006 the Company entered into a Consulting Agreement with Interactive Resources Group, Inc. ("IRG"). IRG was hired to provide the Company with corporate consulting services in connection with the Company's corporate finance relations, investor relations to enhance the Company's visibility in the financial community. The term of the agreement is six months. As compensation, the Company agreed to issue IRG an aggregate of 225,000 shares of its common stock, payable 75,000 on November 1, 2006, 75,000 payable on January 1, 2007 and 75,000 payable on March 1, 2007. The Company has issued the first 75,000 shares.

In addition, the Company agreed to issue three hundred thousand (300,000) common stock purchase warrants which vest on or about January 20, 2007, ninety-one (91) days from the date of the Agreement.

The warrants are exercisable for four years at the following exercise prices:

100,000 at \$1.50 per share
100,000 at \$2.00 per share
100,000 at \$4.00 per share

On October 23, 2006 the Company entered into a Consulting Agreement with Brendan Hopkins ("Hopkins"). As compensation, the Company agreed to issue Hopkins seventy-five thousand (75,000) shares of its common stock payable 25,000 on October 23 2006, 25,000 on November 20, 2006 and 25,000 shares on December 20, 2006. To

date, the Company has issued Mr. Hopkins 25,000 shares of its common stock.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

On October 10, 2006, the Company amended the exercise price of the 1,600,000 Class A Warrants issued to investors in the Company's private placement in June 2006 from \$1.75 to \$1.00.

On November 17, 2006, the Company entered into a Securities Purchase Agreement with two(2) investors relating to the issuance and sale of the Company's 10% Promissory Notes due March 15, 2007 in the aggregate principal amount of 300,000, 99,000 Common Stock Purchase warrants and 300,000 shares of the Company's Common Stock. In connection with this transaction, the two investors provided the Company with \$300,000.

Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations

Background

The Company was incorporated on March 13, 1985, under the laws of the State of Utah with the name Univenture Capital Corp. The Company was organized to engage in any lawful business and had no specific business plan except the investigation, analysis, and possible acquisition of business opportunities.

On August 29, 1986, the Company acquired all of the outstanding stock of Health & Leisure Inc., a Delaware corporation which subsequently changed its name to Entre Vest, Inc. ("Entre Vest"), in a transaction in which a subsidiary of the Company merged with and into Entre Vest and the former stockholders of Entre Vest obtained a controlling interest in the Company. The Company subsequently changed its own name from Univenture Capital Corp. to Health & Leisure, Inc. and changed its state of incorporation from Utah to Delaware. Entre Vest was incorporated on June 6, 1985, under the laws of the State of Delaware.

Pursuant to an Acquisition Agreement and Plan of Merger dated June 13, 2003 (the "Merger Agreement"), by and among Health & Leisure, Inc (the "Registrant"); Venture Sum, Inc., a Delaware corporation and a wholly owned subsidiary of Registrant ("Mergerco"); and MarketShare Recovery, Inc., a New York corporation, ("MKSR"), Mergerco merged with and into MKSR, and MKSR became a wholly-owned subsidiary of the Registrant. The merger became effective June 13, 2003, however closing of the Agreement occurred on July 15, 2003. Subsequently, Health & Leisure, Inc. filed an amendment to its certificate of incorporation and thereby changed its name to MarketShare Recovery, Inc.

Our former subsidiary similarly named MarketShare Recovery, Inc. was incorporated in New York in November 2000. The subsidiary, MarketShare Recovery, Inc. was a provider of online direct marketing solutions for enterprises. The solutions enabled corporations to create and deliver online direct marketing programs that drive revenue, influence behavior and deepen customer relationships. Our solutions provided customer insight and powerful program execution through a combination of hosted applications and technology infrastructure. As a result of new technology, the Company found it harder to maintain and grow this business and at the end of 2004 this business was discontinued.

On October 7, 2004, we entered into an Asset Purchase Agreement with Palomar Enterprises, Inc. (the "Agreement"). Pursuant to the Agreement, we agreed to purchase certain assets, including certain automotive notes and contracts, a business plan and model for an automotive financial services company and a data base of potential customers and \$150,000 in cash from Palomar in exchange for a controlling interest in us.

On November 2, 2004, by mutual agreement, Palomar and us terminated the Agreement.

In 2004, we entered into a database license agreement with 110 Media Group to use and to sublicense the use of its database for a term of ten years for a total license fee of \$45,567. For financial reporting, revenue is recognized using the straight-line method, based upon the economic useful life of three years. At December 31, 2004, our remaining deferred revenue of \$30,378 was recognized as revenue due to the Company completing its obligations under the agreement and we are no longer required to perform any further services nor incur any costs related to this agreement.

On May 27, 2005, we completed a merger (“Merger”) of MarketShare Merger Sub, Inc. a wholly owned subsidiary of the Company (“Merger Sub”) with bioMetrx Technologies, Inc., a Delaware corporation (“bioMetrx Technologies”) pursuant to the Agreement and Plan of Merger dated April 27, 2005, by and among the Company, Merger Sub and bioMetrx Technologies (“Merger Agreement”). bioMetrx Technologies, a development stage company, is engaged in the development of biometrics-based products for the home security and electronics market, including biometrically enabled residential door locks, central station alarm keypads, thermostats and garage/gate openers.

On June 1, 2005, Merger Sub filed a Merger Certificate completing the acquisition of bioMetrx Technologies. The consideration for the Merger was 3,554,606 restricted shares of our common stock and the issuance of 45,507 Common Stock Purchase Warrants to the holders of corresponding instruments of bioMetrx Technologies. The Merger was completed according to the terms of the Merger Agreement. Simultaneously with the Merger, certain stockholders of the Company surrendered 552,130 shares of the Company’s common stock which was cancelled and returned to the status of authorized and unissued. In addition, 75,000 shares of the Company’s common stock were deposited by these stockholders into escrow to cover contingent liabilities, if any. As a result of the Merger, bioMetrx Technologies was merged into the Merger Sub and became our wholly owned subsidiary.

Since the Company had no meaningful operations immediately prior to the Merger, the Merger is being treated as a reorganization of bioMetrx Technologies via a reverse merger with the Company for accounting purposes.

The 3,554,606 shares and the shares issuable upon the exercise of 45,507 warrants issued as part of Merger to the former bioMetrx Technologies stockholders represented approximately 90% of the total outstanding post-merger stock.

On October 10, 2005, the Company amended its Certificate of Incorporation to change its name to bioMETRX, Inc., as a result, the Company’s trading symbol was changed to “BMTX”.

On March 14, 2006, the Company filed an amendment to its Certificate of Incorporation to effect a reverse split of all of the outstanding shares of its Common Stock at a ratio of one-for-four and increase the number of authorized shares of its Common Stock to 25,000,000 shares and decrease the par value of the Company’s common stock to \$.001 per share. Our certificate of incorporation amendment authorized the issuance of up to 10,000,000 shares of \$.01 par value preferred stock, with such designation rights and preferences as may be determined from time to time by the Board of Directors. The Company’s trading symbol was changed to “BMRX.” The combined companies are hereinafter referred to as the “Company” or “bioMETRX.”

On June 29, 2006, the Company entered into a Securities Purchase Agreement dated as of June 29, 2006, with four investors relating to the issuance and sale, in a private placement (“Private Placement”) exempt from the registration requirements of the Securities Act of 1933, as amended (the “Securities Act”), of units (the “Units”) consisting of 8% Convertible Notes in the principal amount of \$950,000 (“Notes”), Series A Common Stock Purchase Warrants (“A Warrants”) and Series B Common Stock Purchase Warrants (“B Warrants”). In addition, the company entered into an Exchange Agreement with the two investors who purchased \$650,000 of the Preferred Stock Units, previously reported on Form 8-K dated April 28, 2006 whereby the Company agreed to issue the Units in exchange for the return and cancellation of the previously issued Preferred Stock Units. Accordingly, at closing the Company issued its 8% Convertible Notes in the aggregate principal amount of \$1,600,000, 1,600,000 A Warrants and 800,000 B Warrants to the Investors. The Company also issued an aggregate of 128,000 shares of its common stock to the investors representing one year’s of prepaid interest on the Notes.

Pursuant to the Selling Agent Letter Agreement between the Company and the Selling Agent, the Selling Agent was paid a cash fee of \$95,000 (10% of the aggregate purchase price of the Units sold to the subscribers) in addition to the \$75,000 it received on April 28, 2006, inclusive of \$10,000 in expenses. The Company also issued the Selling Agent a warrant to purchase 160,000 shares of its common stock on the same terms as the A Warrants. In addition, the Company paid \$15,000 to the Selling Agent’s counsel and \$32,500 to its counsel.

As part of the Private Placement, the Company entered into a registration rights agreement (the “Registration Rights Agreement”) with each subscriber who purchased Units in the Private Placement. Under the Registration Rights Agreement, the Company is obligated to file a registration statement (the “Registration Statement”) on Form SB-2, relating to the resale by the holders of the Common Stock underlying the Notes, Warrants and Selling Agent Warrant. If such Registration Statement was not filed by July 14, 2006, or does not become effective within 90 days after closing, the Company has agreed to pay to the investors 1.5% of the gross proceeds of the offering for each month in which the Company fails to comply with such requirements. The Company did not file the Registration Statement by July 14, 2006 and therefore is accruing 1.5% (\$24,000) of the gross proceeds for each month the Company fails to file the Registration Statement.

On July 11, 2006, Mr. Steven Kang resigned as the Company’s Chief Technology Officer and as a director of the company. In connection with his resignation, the Company entered into a termination agreement terminating this employment.

On July 11, 2006, the Company elected Ms. Lorraine Yarde to the Company’s Board of Directors to replace Mr. Kang.

On August 4, 2006, the Company entered into an employment agreement with J. Richard Iler under which Mr. Iler will serve as our Chief Financial Officer. Mr. Iler replaces Mr. Frank Giannuzzi in this position, Mr. Giannuzzi resigned as the Company’s CFO and director on August 7, 2006. Mr. Iler was also elected to the Company’s Board of Directors.

On September 18, 2006, the Company entered into a Securities Purchase Agreement with two investors relating to the issuance and sale of the Company's 10% Promissory Notes due March 15, 2007 in the aggregate principal amount of \$400,000, 400,000 Common Stock Purchase warrants and 160,000 shares of the company's Common Stock. In connection with this transaction, the two investors provided the Company with \$300,000 and exchanged \$100,000 in Notes that were previously issued by the Company to the investors.

On September 30, 2006, the Company entered into a Securities Purchase Agreement with two investors relating to the issuance and sale of the Company's 10% Promissory Notes due March 30, 2007 in the aggregate principal amount of \$55,000, 55,000 Warrants and 22,000 shares of the Company's Common Stock.

Our corporate address is 500 North Broadway, Suite 204, Jericho, New York 11753, our telephone number is (516) 937-2828 and our facsimile number is (516) 937-2880.

Operations

The Company, through its wholly owned subsidiaries, designs, develops, engineers and markets biometrics-based products for the consumer home security, consumer electronics, medical records and medical products markets. The Company's executive offices are located in Jericho, New York.

Originally founded in 2001, bioMETRX is focused on developing simple-to-use, cost-efficient, finger-activated, lifestyle products under the trade name SmartTOUCHÔ. The Company's product line includes biometrically enabled residential locks, central station alarm keypads, thermostats, garage/gate openers, medical crash carts and industrial medicine cabinets. Our products utilize finger recognition technology designed to augment or replace conventional security methods such as keys, keypads, and PIN numbers.

The Company operates its business through three (3) wholly owned subsidiaries, bioMETRX Technologies Inc., which conducts the product engineering and design, smartTOUCH Consumer Products, Inc., the consumer-based marketing and sales group and smartTOUCH Medical, Inc. which is designing and will market medical industry products.

The home security industry consists of garage door manufacturers, key and lock manufacturers and central station alarm monitoring companies, representing a \$25 billion global market. bioMETRX develops market-specific products in this area which are being sold through retailers, dealers and direct to consumers in the United States. The company's first product, the Garage Door Opener, also known as the smartTOUCH GDO, will be available through the Home Depot this summer.

The Company also developed a finger-activated thermostat (smartSTAT) that will be marketed to the general public as well as small box retailers, restaurant chains and small business owners. The Company's smartSTAT product will allow consumers and small business owners the ability to prevent unwanted tampering of their heating and cooling settings and hence control the temperature within their homes or business establishments, as the case may be, without having to install a cumbersome security box around the thermostat. The Company’