BeesFree, Inc.
Form 10-Q
November 14, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

x Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 2012

¨ Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from ___________ to _____________

Commission File No. 000-53212

BEESFREE, INC.

(Exact name of registrant as specified in its charter)

Nevada	92-0189305
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2101 Vista Parkway, Suite 122

West Palm Beach, FL 33411

(Address of principal executive offices)

(561) 939-4860

(Registrant’s telephone number, including area code)

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 such 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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.) Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨	Accelerated filer ¨
Non- accelerated filer (Do not check if a smaller reporting company) ¨	Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

As of November 8, 2012, the registrant had 16,225,000 shares of common stock, $0.001 par value, issued and outstanding.

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BEESFREE, INC. AND SUBSIDIARIES

(A Development Stage Company)

CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2012 (unaudited)	December 31, 2011
Assets		
Current Assets		
Cash	$ 12,900	$ 1,053,379
Prepaid expenses	82,964	10,500
Total Current Assets	95,864	1,063,879
Intangible assets, net	1,650	1,650
Deposit	2,150	1,175
Total Assets	$ 99,664	$ 1,066,704
Liabilities and Stockholders' (Deficiency) Equity		
Current Liabilities		
Accounts payable and accrued expenses	$ 166,082	$ 22,053
Share issuance liability	20,650	-
Accrued dividends on preferred stock	139,233	7,233
Common stock warrant liability	696,000	580,000
Total Current Liabilities	1,021,965	609,286
Commitments and contingencies		
Stockholders' (Deficiency) Equity		
Preferred stock, $0.001 par value; 5,000,000 shares authorized; 2,200,000 issued and outstanding in the following class:		
Series A Cumulative Preferred Stock, $1 stated value, 3,500,000 shares authorized; 2,200,000 shares issued and outstanding (aggregate liquidation preference $2,339,233 and $2,207,233 as of September 30, 2012 and December 31, 2011, respectively)	2,200	2,200
Series B Cumulative Preferred Stock, $175 stated value, 50,000 shares authorized; -0- shares issued and outstanding	-	-
Common stock, $0.001 par value; 200,000,000 shares authorized; 16,190,000 and 16,150,000 issued and outstanding as of September 30, 2012 and December 31, 2011, respectively	16,190	16,150

Additional paid-in-capital	1,530,841	1,502,025
Deficit accumulated during the development stage	(2,471,532)	(1,062,957)
Total Stockholders' (Deficiency) Equity	(922,301)	457,418
Total Liabilities and Stockholders' (Deficiency) Equity	$ 99,664	$ 1,066,704

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

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BEESFREE, INC. AND SUBSIDIARIES

(A Development Stage Company)

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2012	Period from August 4, 2011 (Inception) to September 30, 2011	Period from August 4, 2011 (Inception) to September 30, 2012
Revenue	$ -	$ -	$ -	$ —
Operating Expenses				
Research and development expenses	72,411	147,346	100,000	361,096
Merger expenses	-	-	-	415,000
General and administrative expenses	300,151	1,013,229	98,939	1,440,203
Total Operating Expenses	372,562	1,160,575	198,939	2,216,299
Change in fair value of warrants	(139,200)	(116,000)	-	(116,000)
Net Loss	$ (511,762)	$ (1,276,575)	$ (198,939)	$ (2,332,299)
Dividends to Series A Preferred Stockholders	(44,000)	(132,000)	-	(139,233)
Net Loss Attributable to Common Stockholders	$ (555,762)	$ (1,408,575)	$ (198,939)	$ (2,471,532)
Basic and Diluted Net Loss per Share	$ (0.03)	$ (0.09)	$ (0.02)	
Weighted Average Number of Shares Outstanding - basic and diluted	16,186,087	16,162,117	8,189,474	

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

BEESFREE, INC. AND SUBSIDIARIES

(A Development Stage Company)

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

	Nine Months Ended September 30, 2012	Period from August 4, 2011 (Inception) to September 30, 2011	Period from August 4, 2011 (Inception) to September 30, 2012
Cash Flows from Operating Activities			
Net loss	$ (1,276,575)	(198,939)	$ (2,332,299)
Adjustments to reconcile net loss to net cash used in operating activities:			
Stock-based compensation	49,506	—	49,506
Change in fair value of warrants	116,000	—	116,000
Changes in operating assets and liabilities:			
Deposits	(975)	—	(2,150)
Prepaid expenses and other assets	(72,464)	(127)	(82,964)
Accounts payable and accrued expenses	144,029	—	166,082
Total Adjustments	236,096	(127)	246,474
Net Cash Used in Operating Activities	(1,040,479)	(199,066)	(2,085,825)
Cash Used in Investing Activities			
Deposits and other assets	—	(86,501)	—
Cash Provided by Financing Activities			
Proceeds from issuance of convertible debentures	—	700,000	1,000,000
Proceeds from sale of convertible preferred stock, net of costs	—	—	1,200,000
Fees paid to third-parties in connection with sale of convertible preferred stock	—	—	(111,775)
Proceeds from issuance of founders' common stock	—	10,300	10,300
Proceeds from sale of common stock	—		200
Net Cash Provided by Financing Activities	—	710,300	2,098,725
Net (Decrease) Increase in Cash	(1,040,479)	424,733	12,900

Cash - Beginning	1,053,379	-	—
Cash - Ending	$ 12,900	$ 424,733	$ 12,900
Non-Cash Investing and Financing Activities:			
Conversion of convertible debentures into convertible preferred stock	$ -	$ -	$ 1,000,000
Warrants issued in connection with convertible preferred stock	$ -	$ -	$ 580,000
Dividends accrued on convertible preferred stock	$ 132,000	$ -	$ 139,233
Shares issued relating to merger recapitalization	$ -	$ -	$ 4,000
Shares issued related to acquisition of intangible asset	$ -	$ 1,650	$ 1,650

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

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BEESFREE, INC. AND SUBSIDIARIES

(A Development Stage Company)

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Note 1 - Business Organization, Nature of Operations and Basis of Presentation

BeesFree, Inc. (the "Company") was incorporated on September 4, 2007 in the State of Nevada, initially to import and market environmentally friendly and biodegradable plastics, or bioplastic products, in the form of disposable utensils, plates, and cups. BeesFree USA, Inc. a Delaware corporation ("BeesFree-DE") was incorporated on August 4, 2011. On December 16, 2011, the Company entered into an Agreement and Plan of Merger with BeesFree-DE, and BeesFree Acquisition Corp., a wholly-owned subsidiary of the Company ("Acquisition Sub"), pursuant to which Acquisition Sub was merged with and into BeesFree-DE, and BeesFree-DE, as the surviving corporation, became the Company's wholly-owned subsidiary (the "Merger"). Since the stockholders of BeesFree-DE owned a majority of the outstanding shares immediately following the Merger, and the management and Board of Directors of BeesFree-DE became the management and Board of Directors of the Company immediately following the Merger, the Merger was accounted for as a reverse merger and recapitalization. Accordingly, BeesFree-DE was the acquirer for accounting purposes and, consequently, the assets and liabilities and the historical operations that are reflected in the financial statements herein are those of BeesFree-DE and subsidiaries (the "Company" or "BeesFree").

The Company has developed a proprietary composite food supplement for honeybees, BeesVita PlusTM, that prevents the effects of colony collapse disorder ("CCD"). CCD is a phenomenon in which worker bees from a beehive or colony abruptly disappear effectively killing the colony. The Company's goal is to initially sell products directly to large beekeepers in the United States, Europe and Argentina.

The Company has been presented as a "development stage enterprise". The Company's primary activities since inception have been developing the technology, developing our business plan, filing patents, complying with the regulatory requirements to sell its product in various countries, developing an infrastructure to sell and deliver its product, and raising capital. The Company has not commenced principal operations of selling its product, nor has it generated any revenues from operations.

The Company has commenced business development activities in Argentina, Italy and the United States and begun a program of brand awareness. The Company is based in West Palm Beach, Florida, and has research and development operations in Rome, Italy and marketing operations Buenos Aires, Argentina.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information. Accordingly, they do not include all of the information and disclosures required by GAAP for annual financial statements. In the opinion of management, such statements include all adjustments (consisting only of normal recurring items) which are considered necessary for a fair presentation of the condensed consolidated financial statements of the Company as of September 30, 2012, for the three and nine months ended September 30, 2012, for the period from August 4, 2011 (inception) to September 30, 2011, and for the period from August 4, 2011 (inception) to September 30, 2012. The results of operations for the three and nine months ended September 30, 2012 are not necessarily indicative of the operating results for the full year ending December 31, 2012.

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BEESFREE, INC. AND SUBSIDIARIES

(A Development Stage Company)

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Note 1 - Business Organization, Nature of Operations and Basis of Presentation (continued)

These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related disclosures of the Company as of December 31, 2011 and for the period from August 4, 2011 (inception) to December 31, 2011, which were filed with the Securities and Exchange Commission ("SEC") on Form 10-K on March 30, 2012, as subsequently amended on Form 10-K/A and filed with the SEC on June 19, 2012.

Note 2 - Going Concern and Management Liquidity Plans

The Company is currently in the development stage, has not yet generated any revenues, and has incurred net losses since inception. The Company's primary source of operating funds since inception has been cash proceeds from the issuance of common shares to its founders, proceeds from the issuance of convertible debentures and the sale of Cumulative Convertible Preferred Stock and warrants in private placements. During the nine months ended September 30, 2012, the Company incurred a net loss of approximately $1,300,000. As of September 30, 2012, the Company had cash of approximately $13,000 and a working capital deficiency of approximately $926,000. These conditions raise substantial doubt about the Company's ability to continue as a going concern.

As discussed in Note 6, subsequent to September 30, 2012, the Company completed a private placement of Series B Convertible Preferred Stock and warrants to accredited investors for an aggregate purchase price of $542,325. The Company recognizes it will need to raise additional capital in order to meet its obligations and execute its current business plan for at least the next twelve month period. The Company intends to seek additional debt or equity financing. There is no assurance that additional financing will be available when needed or that management will be able to obtain such financing on terms acceptable to the Company or that the Company will become profitable and generate positive operating cash flow in the future. If the Company is unable to raise sufficient additional funds, it will have to develop and implement a plan to further extend payables, reduce overhead, or scale back its current business plan until sufficient additional capital is raised to support further operations. There can be no assurance that such a plan will be successful.

Accordingly, the accompanying condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation of the Company as a going concern and the realization of assets and satisfaction of liabilities in the normal course of business. The carrying amounts of assets and liabilities presented in the financial statements do not necessarily purport to represent realizable or settlement values. The condensed consolidated financial statements do not include any adjustment that might result from the outcome of this uncertainty.

BEESFREE, INC. AND SUBSIDIARIES

(A Development Stage Company)

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Note 3 - Summary of Significant Accounting Policies

Principles of Consolidation

The condensed consolidated financial statements of the Company include the accounts of BeesFree-DE. All significant intercompany transactions have been eliminated in the consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from these estimates. The Company's significant estimates and assumptions include the fair value of the Company's stock, stock-based compensation, warrant liabilities and the valuation allowance relating to the Company's deferred tax assets.

Net Loss per Share

Basic earnings (loss) per common share ("EPS") is computed by dividing net loss by the weighted average number of common shares outstanding during the period. Diluted earnings per common share is computed by dividing net earnings by the weighted average number of common shares outstanding, plus the issuance of common shares, if dilutive, resulting from the exercise of outstanding preferred stock, stock options and warrants. As of September 30, 2012, there were 2,200,000 and 2,320,000 common stock equivalents which would be issuable upon the conversion of shares of convertible preferred stock and the exercise of warrants, respectively, that could potentially dilute EPS in the future that were not included in the computation of EPS because to do so would have been antidilutive.

Share-based Compensation

The Company measures the cost of services received in exchange for an award of equity instruments based on the fair value of the award. For Directors, the fair value of the award is measured on the grant date and for non-employees, the fair value of the award is measured on the commitment date. The fair value amount is then recognized over the period during which services are required to be provided in exchange for the award, usually the vesting period. Stock-based compensation expense is recorded by the Company in the same expense classifications in the condensed consolidated statements of operations as if such amounts were paid in cash.

BEESFREE, INC. AND SUBSIDIARIES

(A Development Stage Company)

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Note 3 - Summary of Significant Accounting Policies (continued)

Fair Value of Financial Instruments

The Company measures the fair value of financial assets and liabilities based on the guidance of ASC 820 "Fair Value Measurements and Disclosures" which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The carrying amounts of cash, accounts payable, and accrued liabilities approximate fair value due to the short-term nature of these instruments.

Financial liabilities as of September 30, 2012 measured at fair value on a recurring basis are summarized below:

	September 30, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Warrant liabilities	$ 696,000	$ —	$ —	$ 696,000

In accordance with ASC 815-40 ("Contracts in Entity's own Equity"), the Company determined that the warrants issued in connection with a Preferred Stock financing transaction in December 2011 did not have fixed settlement provisions and are deemed to be derivative financial instruments, since the exercise price was subject to adjustment based on certain subsequent equity issuances. Accordingly, the Company was required to record the warrants as liabilities and mark to market all such derivatives to fair value each reporting period.

Level 3 liabilities are valued using unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the warrant liabilities. For fair value measurements categorized within Level 3 of the fair value hierarchy, the Company's Chief Financial Officer, who reports to the Chief Executive Officer, determine its valuation policies and procedures. The development and determination of the unobservable inputs for Level 3 fair value measurements and fair value calculations are the responsibility of the Company's Chief Financial Officer and are approved by the Chief Executive Officer. Currently, David Todhunter serves as both Chief Financial Officer and Chief Executive Officer.

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BEESFREE, INC. AND SUBSIDIARIES

(A Development Stage Company)

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Note 3 - Summary of Significant Accounting Policies (continued)

Fair Value of Financial Instruments (Continued)

Level 3 financial liabilities consist of the warrant liabilities for which there is no current market for these securities such that the determination of fair value requires significant judgment or estimation. Changes in fair value measurements categorized within Level 3 of the fair value hierarchy are analyzed each period based on changes in estimates or assumptions and recorded as appropriate. A significant decrease in the volatility or a significant increase in the Company's stock price, in isolation, would result in a significantly lower fair value measurement. Changes in the values of the derivative liabilities are recorded in Change in Fair Value of Warrants on the Company's condensed consolidated statements of operations. As of September 30, 2012, there were no transfers in or out of Level 3 from other levels in the fair value hierarchy.

The Company valued these warrants and recorded a liability relating to the fair value of the warrants on the date of issuance. The fair value of these warrants at the end of the reporting period was calculated using a compound option model that includes characteristics of both a binomial lattice and the Black-Scholes formula with the following range of assumptions:

Dividend Yield	0.00%
Volatility	50.0% - 95.00%
Risk-free Interest Rate	0.17% -1.04%
Expected Lives	4.21 years
Weighted Average Fair Value per Warrant	$0.30

The risk-free interest rate is the United States Treasury rate for the day of the grant having a term equal to the contractual life of the warrant. An increase in the risk-free interest rate will increase the fair value and the related change in fair value. The volatility is a measure of the amount by which the Company's share price has fluctuated or is expected to fluctuate. Since the Company's common stock has not been publicly traded for a long period of time, an average of the historic volatility of comparative companies was used. The dividend yield is 0% as the Company has not made any dividend payment and has no plans to pay dividends in the foreseeable future.

The following table sets forth a summary of the changes in the fair value of the Company's Level 3 financial liabilities that are measured at fair value on a recurring basis for the period from January 1, 2012 to September 30, 2012:

Beginning Balance	$580,000
Change in fair value of warrant liabilities	116,000
Ending Balance	$696,000

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BEESFREE, INC. AND SUBSIDIARIES

(A Development Stage Company)

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Note 3 - Summary of Significant Accounting Policies (continued)

Subsequent Events

Management has evaluated subsequent events or transactions occurring through the date on which the condensed consolidated financial statements were issued.

Recent Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-04, Fair Value Measurement (Topic 820). This updated accounting guidance establishes common requirements for measuring fair value and for disclosing information about fair value measurements in accordance with U.S. Generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards (IFRS). This guidance includes amendments that clarify the intent about the application of existing fair value measurements and disclosures, while other amendments change a principle or requirement for fair value measurements or disclosures. This ASU is effective for interim and annual periods beginning after December 15, 2011. The adoption of this standard did not have a material impact on the Company's condensed consolidated financial position and results of operations.

Note 4 – Stockholders' (Deficiency) Equity

Options

In April 2012, the Company granted to certain Directors options to purchase an aggregate of 100,000 shares of the Company's common stock at an exercise price of $2.30 per share, of which 50,000 shares vested on the date of grant and 50,000 shares shall vest on the first anniversary of the date of grant, provided such directors are currently serving as board members on such date. The options shall expire on the fourth anniversary of the applicable vesting date. The fair value of these options is $1,190 based on the Black-Scholes option pricing model.

In June 2012, the Company granted to a Director, an option to purchase 50,000 shares of the Company's common stock at an exercise price of $1.97 per share, of which 25,000 shares vested on the date of grant and 25,000 shares shall vest on the first anniversary of the date of grant, provided such director is currently serving as a board member on such date. The options shall expire on the fourth anniversary of the applicable vesting date. The fair value of this option is $905 based on the Black-Scholes option pricing model.

In August 2012, the Company granted to a Director, an option to purchase 50,000 shares of the Company's common stock at an exercise price of $1.88 per share, of which 25,000 shares vested on the date of grant and 25,000 shares shall vest on the first anniversary of the date of grant, provided such director is currently serving as a board member on such date. The options shall expire on the fourth anniversary of the applicable vesting date. The fair value of this option is $1,022 based on the Black-Scholes option pricing model.

BEESFREE, INC. AND SUBSIDIARIES

(A Development Stage Company)

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Note 4 – Stockholders' (Deficiency) Equity (continued)

Options (continued)

In August 2012, the Company granted to certain Advisory Board Members, options to purchase an aggregate of 100,000 shares of the Company's common stock at an exercise price of $1.82 per share, of which 50,000 shares vested on the date of grant and 50,000 shares shall vest on the first anniversary of the date of grant, provided such Advisory Board Members are currently serving as board advisory members on such date. The options shall expire on the fourth anniversary of the applicable vesting date. The fair value of these options is $7,587 based on the Black-Scholes option pricing model.

The Company recorded $5,256 of stock based compensation expense for the nine months ended September 30, 2012 and for the period from August 4, 2011 (Inception) to September 30, 2012. As of September 30, 2012, there was $5,447 of total unrecognized compensation expense related to unvested employee stock options. This expense is expected to be recognized over a weighted-average period of approximately 0.75 years.

The Company has computed the fair value of options granted using the Black-Scholes option pricing model. Forfeitures are estimated at the time of valuation and reduce expense ratably over the vesting period. This estimate will be adjusted periodically based on the extent to which actual forfeitures differ, or are expected to differ, from the previous estimate, when it is material. The expected term of options granted represents the estimated period of time that options granted are expected to be outstanding. The Company utilizes the "simplified" method to develop an estimate of the expected term of "plain vanilla" option grants. Since the Company's stock has not been publicly traded for a long period of time, the Company is utilizing an expected volatility figure based on a review of the historical volatilities, over a period of time, equivalent to the expected life of these options, of similarly positioned public companies within its industry. The Company estimated forfeitures related to option grants at an annual rate of 0% per year for options granted during the nine months ended September 30, 2012. The risk-free interest rate was determined from the implied yields from U.S. Treasury zero-coupon bonds with a remaining term consistent with the expected term of the options.

The following assumptions were used in estimating the fair value of stock options granted during the three and nine months ended September 30, 2012:

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BEESFREE, INC. AND SUBSIDIARIES

(A Development Stage Company)

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Note 4 – Stockholders' (Deficiency) Equity (continued)

Options (continued)

Weighted Average Exercise Price	$2.02	
Expected Life	2 - 5 years	
Volatility	50.0	%
Dividend Yield	0	%
Risk-free interest rate	0.37	%

A summary of the Company's options outstanding and exercisable as of September 30, 2012 is presented below:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Balance – January 1, 2012	-			
Granted	300,000	$ 2.02	4.26	
Exercised	-	-	-	
Cancelled	-			
Balance – September 30, 2012	300,000	$ 2.02	4.26	$ –
Balance – September 30, 2012 (exercisable)	150,000	$ 2.02	3.76	$ –

Options outstanding at September 30, 2012 have an exercise price of $1.82 to $2.30 per share.

Common Stock

In August 2012, the Company entered into a six month agreement with a consultant. Pursuant to the terms of the agreement, the Company agreed to pay compensation of $5,000 per month for the first three months and $6,500 per month for the rest of the term. The Company also agreed to issue 35,000 restricted common stock shares as part of the compensation to the consultant. As of September 30, 2012, such shares had not been issued and the Company recorded a share issuance liability of $20,650. Such shares were issued on October 29, 2012.

BEESFREE, INC. AND SUBSIDIARIES

(A Development Stage Company)

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Note 5 - Commitments Agreements and Contingencies

Litigations, Claims and Assessments

In the normal course of business, the Company may be involved in legal proceedings, claims and assessments arising in the ordinary course of business. Such matters are subject to many uncertainties, and outcomes are not predictable with assurance. There are no such matters that are deemed material to the condensed consolidated financial statements as of September 30, 2012.

Separation Agreement

In June 2012, the Company entered into a Separation and General Release Agreement with its President, Chief Executive Officer and Director (the “Officer”). Pursuant to the agreement the Company paid the Officer a one-time cash payment of $21,513, representing amounts due under the Officer’s employment agreement and the reimbursement of certain expenses. The Company also issued the Officer 40,000 shares of the Company’s restricted common stock. For the nine months ended September 30, 2012, the Company recorded an expense relating to the Agreement of $45,113 as General and Administrative Expenses in the accompanying condensed Statement of Operations.

Note 6 – Subsequent Events

On October 10, 2012, pursuant to a Subscription Agreement entered into with five accredited investors, the Company issued an aggregate of 3,099 shares of newly created 12% Series B Convertible Preferred Stock, par value $0.001 per share (the "Series B Preferred Stock") at a price of $175.00 per share and warrants to purchase an aggregate of 309,900 shares of our common stock, par value $0.001(the “Common Stock”) per share for an aggregate consideration of $542,325. Each share of Series B Preferred Stock is convertible, at the option of the holder thereof, at any time after the date of issuance, into such number of shares of Common Stock as is determined by dividing the Series B Preferred

Stock Price by the Series B conversion price (the "Conversion Price"), which is initially $1.75 (i.e, each share is initially convertible into 100 shares of Common Stock).

On October 19, 2012, the Company announced that David W. Todhunter was appointed as the Company's President and Chief Executive Officer in addition to being the Company's Chief Financial Officer and entered into a new Employment Agreement (the "Agreement"). The Agreement will initially expire on December 31, 2015. Under the terms of the Agreement, Mr. Todhunter will receive an initial annual base salary of $126,000 until March 31, 2013 with future salary adjustments subject to certain terms and conditions. In addition, Mr. Todhunter will be entitled to receive on a fiscal year basis a cash bonus determined in the discretion of the Board of Directors of up to fifty (50%) percent of his annual salary. Upon execution of the Agreement, Mr. Todhunter was issued stock options to purchase an aggregate of 1,700,000 shares of the Company's common stock at an exercise price of $1.55 per share, which was the closing sale price of the Company's common stock on the date the Agreement was executed; 250,000 of such options were fully vested upon execution of the Agreement, 250,000 options shall vest on the earlier of (i) the closing of an investment into the Company of not less than $1 million or (ii) December 31, 2012 and the remaining options shall vest based upon the Company meeting certain Performance Measurements as defined. All of these options expire four (4) years from the date of their respective vesting.

BEESFREE, INC. AND SUBSIDIARIES

(A Development Stage Company)

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Note 6 – Subsequent Events ***(Continued)***

On November 6, 2012, the Company entered into a three-year consulting services agreement with the Company's Chief Scientist and inventor of the Company's proprietary chemical compound mixture, BeesFreeVita Plus™, and proprietary dispenser, the Beespenser™. During the first year of the agreement, the Company's Chief Scientist will be paid $7,750 per month. Compensation for the two remaining years of the agreement will be determined by the mutual consent of the Company and the Chief Scientist. The agreement may be terminated (i) automatically, upon the expiration of the term, (ii) upon the mutual written consent of the Company and the Chief Scientist, or (iii) by Company at any time, for any reason, upon not less than 90 days prior written notice.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Statements in this Quarterly Report on Form 10-Q and other written reports made from time to time by us that are not historical facts constitute so-called "forward-looking statements," all of which are subject to risks and uncertainties. Forward-looking statements can be identified by the use of words such as "expects," "plans," "will," "forecasts," "projects," "intends," "estimates," and other words of similar meaning. Forward-looking statements are likely to address our growth strategy, financial results and product and development programs, among other things. One must carefully consider any such statement and should understand that many factors could cause actual results to differ from our forward-looking statements. Such risks and uncertainties include but are not limited to those detailed from time to time in our filings with the Securities and Exchange Commission or otherwise. These factors may include inaccurate assumptions and a broad variety of other risks and uncertainties, including some that are known and some that are not. No forward-looking statement can be guaranteed and actual future results may vary materially.

Overview

We were incorporated on September 4, 2007, in the State of Nevada, initially to import and market environmentally friendly and biodegradable plastics, or bioplastic products, in the form of disposable utensils, plates, and cups. BeesFree USA, Inc., a Delaware corporation ("BeesFree-DE") was incorporated August 4, 2011. On December 16, 2011, we entered into an Agreement and Plan of Merger with BeesFree-DE and BeesFree Acquisition Corp., a wholly-owned subsidiary of the Company ("Acquisition Sub"), pursuant to which Acquisition Sub was merged with and into BeesFree-DE, and BeesFree-DE, as the surviving corporation, became our wholly-owned subsidiary (the "Merger"). Since the stockholders of BeesFree-DE owned a majority of our outstanding shares immediately following the Merger, and the management and Board of Directors of BeesFree-DE became the management and Board of Directors of the Company immediately following the Merger, the Merger was accounted for as a reverse merger and recapitalization. Accordingly, BeesFree-DE was the acquirer for accounting purposes and, consequently, the assets and liabilities and the historical operations that are reflected in the financial statements herein are those of BeesFree-DE and subsidiaries (the "Company" or "BeesFree").

We have developed a proprietary composite food supplement for honeybees, BeesVita PlusTM, that prevents the effects of colony collapse disorder ("CCD"). CCD is a phenomenon in which worker bees from a beehive or colony abruptly disappear effectively killing the colony. Our goal is to initially sell our products directly to large beekeepers in the United States, Europe and Argentina.

We are also working on the BeespenserTM, an innovative and patent pending dispensing system that automates the BeesVita Plus application process.

We are a development stage enterprise. Our primary activities have been developing our business plan, filing patents, complying with the regulatory requirements to sell our product in various countries, developing an infrastructure to sell and deliver our product, and raising capital. We have not commenced our principal operations of selling our product, nor have we generated any revenues from our operations.

We have incurred operating losses since inception and expect to incur additional operating losses in the future in connection with the development of our core products. As of September 30, 2012, we had a deficit accumulated during the development stage of $2,471,532 The operation and development of our business will require additional capital to fund our operations, research and development and other initiatives including business development activities in Argentina, Europe and other regions of the world.

Our near-term business strategy involves the following:

· continuing the registration and certification process in targeted jurisdictions;

· establishing partnerships with manufacturing facilities to produce our products;

· continuing implementation of a financial and operating system to maintain proper controls, books and records;

· continuing research and development activities with a focus on the development and improvement of product features and increased functionalities; and

· hiring and retaining additional qualified personnel.

Recent Developments

Significant recent developments in the third quarter and to date regarding our company include the following:

· On July 23, 2012, we announced a new conditional order to deliver 3,500 liters of BeesFreeVita Plus™ to Elle-Elle, s.r.o., an agricultural and services company active in Slovakia. The initial order is valued at over $190,000.

· On July 23, 2012, we announced a new conditional order to deliver 4,500 liters of BeesVita Plus™ to Azienda Agricola di Antonietti Riccardo, an agricultural and farming company located in Northern Italy. The initial order is valued at approximately $250,000.

· On August 6, 2012, we announced two new conditional orders for delivery in Slovakia. The new orders, which are subject to product registration and authorization in the European Union, call for the company to deliver 4,500 liters of BeesFreeVita Plus™ to LAPAS, s.r.o. and 5,500 liters of BeesFreeVita Plus™ to TECHNO - AGRO, s.r.o. Both companies have significant agricultural and farming interests in Slovakia. These orders are valued in excess of

$550,000.

· On October 10, 2012, pursuant to a Subscription Agreement entered into with five accredited investors, the Company issued an aggregate of 3,099 shares of newly created 12% Series B Cumulative Convertible Preferred Stock, par value $0.001 per share (the "Series B Preferred Stock") at a price of $175.00 per share and warrants to purchase an aggregate of 309,900 shares of our common stock, par value $0.001 per share (the “Common Stock”) for aggregate consideration of $542,325. Each share of Series B Preferred Stock is convertible, at the option of the holder thereof, at any time after the date of issuance, into such number of shares of Common Stock as is determined by dividing the Series B Preferred Stock Price by the Series B conversion price (the “Conversion Price”), which is initially $1.75 (i.e, each share is initially convertible into 100 shares of Common Stock).

· Effective October 19, 2012, Mr. Todhunter's positions as President and Chief Executive Officer of the Company were made permanent and the Company and Mr. Todhunter entered into a new Employment Agreement.

· On November 6, 2012, the Company entered into a three-year consulting services agreement with Francesca del Vecchio, the Company's Chief Scientist and inventor of our proprietary chemical compound mixture, BeesFreeVita Plus™, and proprietary dispenser, the Beespenser™. During the first year of the agreement, the Company's Chief Scientist will be paid $7,750 per month. Compensation for the two remaining years of the agreement will be determined by the mutual consent of the Company and the Chief Scientist. The agreement may be terminated (i) automatically, upon the expiration of the term, (ii) upon the mutual written consent of the Company and the Chief Scientist, or (iii) by Company at any time, for any reason, upon not less than 90 days prior written notice.

Critical Accounting Policies

The preparation of financial statements in accordance with U.S. GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The financial statements include estimates based on currently available information and our judgment as to the outcome of future conditions and circumstances. Significant estimates in these financial statements include the Company's deferred tax asset, including a full valuation allowance, fair value of the Company's stock and warrant liabilities, which were valued with the assistance of an independent valuation company. Changes in the status of certain facts or circumstances could result in material changes to the estimates used in the preparation of the financial statements and actual results could differ from the estimates and assumptions.

For a description of our critical accounting policies which affect the significant judgments and estimates used in the preparation of our condensed consolidated financial statements, please refer to Management's Discussion and Analysis of Financial Condition and Results of Operation in our Annual Report on Form 10-K for the year ended December 31, 2011 under the caption "Critical Accounting Policies." No changes have been made to these policies during the three and nine months ended September 30, 2012.

Financial Operations Overview

Research and Development Expenses

Our research and development activities are conducted in Rome, Italy by our Chief Scientist, Dr. Francesca del Vecchio. Our current activities are intended to ensure that our proprietary chemical compound mixture, BeesFreeVita Plus™, addresses the latest research with respect to bee healthcare and CCD. Future activities will include on-going research and development, chemical compound production, quality testing of our chemical compounds, and the development of new features for our proprietary dispenser, the Beespenser™.

General and Administrative Expenses

General and administrative expenses consist primarily of the costs associated with our general management, including salaries, consulting fees and corporate support expenses such as legal and accounting expenses. Continued increases will also likely result from the additional hiring of operational, marketing and research personnel. Currently we have 2 full time employees.

Results of Operations

Nine Months Ended September 30, 2012

The Company is in the development stage and has not generated revenues since inception. In connection with the Merger, the financial results of the Company are deemed to be those of BeesFree-DE, which was formed on August 4, 2011, and accordingly, we do not have complete prior periods for comparison purposes.

Research and Development Expenses

Research and development expenses consist primarily of fees paid to our Chief Scientist and other consultants for the continuing development of our patent, our chemical compound, BeesFreeVita Plus™, and our dispenser, the Beespenser™. For the nine months ended September 30, 2012, research and development expenses amounted to $147,346. Research and development expenses are expensed as they are incurred.

General and Administrative Expenses

General and administrative expenses consist primarily of corporate support expenses such as legal and professional fees, investor relations and marketing expenses. For the nine months ended September 30, 2012, general and administrative expenses amounted to $1,013,230. We expect that our general and administrative expenses will continue to increase as we incur additional costs to support the growth in our business.

Change in Fair Value of Warrants

Loss on change in fair value of warrant liability was $116,000 for the nine months ended September 30, 2012. The carrying value of the preferred stock warrant liability is calculated using a compound option model that includes characteristics of both a binomial lattice and the Black-Scholes formula completed using the assistance of independent valuation company.

These assumptions include the risk-free rate of interest, expected dividend yield, expected volatility, and the remaining contractual term of the award. The risk-free rate of interest is based on the U.S. Treasury rates appropriate for the expected term of the award. Expected dividend yield is projected at 0%, as the Company has not paid any dividends on its common stock since its inception and does not anticipate paying dividends on its common stock in the foreseeable future. Expected volatility is based on the historical volatilities of the common stock of comparable publicly traded companies.

Three Months Ended September 30, 2012 compared with Period from August 4, 2011 (Inception) to September 30, 2011.

Research and Development expenses

Research and Development expenses were $72,411 for the three months ended September 30, 2012 compared to $100,000 for the Period from August 4, 2011 (Inception) to September 30, 2011. The decrease in research and development expense in 2012 is primarily the result of a large initial payment for consulting services in the prior period. The current period reflects ordinary expenses such as consulting fees and product development.

General and Administrative expenses

General and Administrative expenses were $300,151 for the three months ended September 30, 2012 compared to $98,939 for the period from August 4, 2011 (Inception) to September 30, 2011. The increase in General and Administrative expenses in 2012 reflects primarily consulting fees, payroll expense, travel expenses and shareholder services expenses for three months in the current period which were only partially incurred in the prior period due to the start up of the business.

Change in Fair Value of Warrants

Loss on change in fair value of warrant liability was $139,200 for the three months ended September 30, 2012 compared to $0 for the period from August 4, 2011 (Inception) to September 30, 2011.

Liquidity and Capital Resources

Liquidity

At September 30, 2012, we had $12,900 in cash, compared to $1,053,379 at December 31, 2011.

As a development stage company, we have not generated any revenues and incurred net losses of approximately $2.5 million during the period from August 4, 2011 (Inception) through September 30, 2012. The Company's primary source of operating funds since inception has been cash proceeds from the issuance of common shares to its founders, sale of convertible debentures and the sale of Preferred Stock.

These conditions raise substantial doubt about the Company’s ability to continue as a going concern. The condensed consolidated financial statements as of September 30, 2012 and for the periods then ended have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation of the Company as a going concern and the realization of assets and satisfaction of liabilities in the normal course of business. The carrying amounts of assets and liabilities presented in the financial statements do not necessarily purport to represent realizable or settlement values. The condensed consolidated financial statements do not include any adjustment that might result from the outcome of this uncertainty.

In October 2012, we issued shares of Series B Convertible Preferred Stock and warrants to accredited investors for an aggregate purchase price of $542,325.

We will need to raise additional funding in order to finance our operations while we implement and execute our business plan, support expansion, develop new or enhanced services and products, respond to competitive pressures, acquire complementary businesses, or take advantage of unanticipated opportunities. There can be no assurance that we will be able to raise equity or debt capital on terms we consider reasonable and prudent, or at all. The availability of capital to us may be subject to the volatility in the financial markets, our future financial condition and credit rating, and whether sufficient assets are available to be used as debt collateral in connection with any future debt financing, among other factors. Future financings through equity investments are likely to be dilutive to the existing stockholders. Also, the terms of securities we issue in future capital transactions may be more favorable for our new investors. Newly issued securities may include preferences, superior voting rights, and the issuance of warrants or other derivative securities, which may have additional dilutive effects. Further, we may incur substantial costs in pursuing future capital and/or financing, including investment banking fees, legal fees, accounting fees, securities law compliance fees, printing and distribution expenses and other costs. We may also be required to recognize non-cash expenses in connection with certain securities we may issue, such as convertible notes and warrants, which may adversely impact our financial condition.

Cash Flows

Net cash used in operating activities was $1,040,479 for the nine months ended September 30, 2012, reflecting our net loss of $1,276,575.

The Company did not conduct any investing or financing activities during the nine months ended September 30, 2012.

Capital Requirements and Resources

Our future capital requirements will depend on many factors, including:

· the speed and ease with which we are able to obtain regulatory approval in jurisdictions where we intend to sell our products;

· our ability to establish regional sales offices and hire quality regional sales managers;

· our efforts to improve the features and functionalities of our current proposed products and the development of additional products;

· our ability to capitalize on manufacturing efficiencies;

· the cyclical nature of the ordering patterns from our distributors and customers; and

· the fluctuation of the Argentine peso and the Euro against the U.S. dollar and other international currencies.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements or commitments that will have a current effect on our financial condition, lead to changes in our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

ITEM 3. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable to “smaller reporting companies” under Item 305(e) of Regulation S-K.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act, is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

As required by Rule 13a-15 under the Exchange Act, we are required to carry out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based on the Company’s evaluation, management concluded that due to the small size of its staff, the lack of an audit committee of the board of directors or other independent body to oversee our internal controls over financial reporting and lack segregation of duties due to the limited nature and resources of the Company, the Company’s disclosure controls and procedures were not effective at a reasonable assurance level to ensure that information required to be disclosed by us in our Exchange Act reports (i) is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and (ii) is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure as of September 30, 2012.

Notwithstanding the conclusion that our disclosure controls and procedures were not effective as of the end of the period covered by this report, the Principal Executive and Financial Officer believes that the condensed consolidated financial statements and other information contained in this report present fairly, in all material respects, our business, financial condition and results of operations.

Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) includes those policies and procedures that: (a) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (b) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP"), and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (c) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Our management does not expect that our disclosure controls and procedures or our internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected.

As of September 30, 2012, we had identified certain matters that constituted a material weakness in our internal controls over financial reporting. Specifically, we have limited segregation of duties within our accounting and financial reporting functions. Segregation of duties within our company is limited due to the small number of employees that are assigned to positions that involve the processing of financial information. Although we are aware that segregation of duties within our company is limited, we believe (based on our current roster of employees and certain control mechanisms we have in place), that the risks associated with having limited segregation of duties are currently insignificant. We have performed additional analyses and other post-closing procedures to ensure that our financial statements contained in this report were prepared in accordance with U.S. GAAP and applicable SEC regulations. Management is in the process of determining how best to change our current system and implement a more effective system to insure that information required to be disclosed in the Company's periodic reports has been recorded, processed, summarized and reported accurately. Our management acknowledges the existence of this problem, and intends to developed procedures to address them to the extent possible given limitations in financial and manpower resources. While management is working on a plan, no assurance can be made at this point that the implementation of such controls and procedures will be completed in a timely manner or that they will be adequate once implemented.

Changes in Internal Control Over Financial Reporting

We have not yet made any changes in our internal control over financial reporting that have materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are not currently involved in any litigation that we believe could have a material adverse effect on our financial condition or results of operations. There is no action, suit, proceeding, inquiry or investigation before or by any court, public board, government agency, self-regulatory organization or body pending or, to the knowledge of the executive officers of our company or any of our subsidiaries, threatened against or affecting our company, our common stock, any of our subsidiaries or of our companies or our subsidiaries' officers or directors in their capacities as such, in which an adverse decision could have a material adverse effect.

ITEM 1A. RISK FACTORS.

We are a smaller reporting company and are not required to provide information required by this item.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

There were no sales of unregistered equity securities during the quarter ended September 30, 2012.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. MINE SAFETY DISCLOSURES.

None.

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS

The exhibits required to be filed as part of this Quarterly Report on Form 10-Q are listed in the Exhibit Index attached hereto and are incorporated herein by reference.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

		BeesFree, Inc
Date:	November 14, 2012	By: /s/ David W. Todhunter President and Chief Executive Officer
Date:	November 14, 2012	By: /s/ David W. Todhunter Principal Financial Officer and Principal Accounting Officer

Exhibit No.	Exhibit Description
31.1	Certification of Principal Executive Officer and Principal Financial Officer pursuant to Rule 13a-14(a) of the Exchange Act of 2002
32.1	Certification of Principal Executive Officer and Principal Financial Officer pursuant to Rule 13a-14(b) of the Exchange Act and Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS †	XBRL Instance Document.
101.SCH †	XBRL Taxonomy Extension Schema Document.
101.CAL †	XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB †	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE †	XBRL Taxonomy Extension Presentation Linkbase Document.
101.DEF †	XBRL Taxonomy Extension Definition Linkbase Document.

†Furnished herewith. In accordance with Rule 406T of Regulation S-T, the information in these exhibits shall not be deemed to be “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability under that section, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, as amended, except as expressly set forth by specific reference in such filing.