

BioMETRX  
Form 10QSB  
May 15, 2006

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

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**FORM 10-QSB**

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

For the Quarter Period Ended  
March 31, 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 short-er 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 May 12, 2006 was 7,253,916.

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**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**  
**March 31, 2006**  
**(Unaudited)**

**ASSETS****Current Assets:**

|   |                  |
|---|------------------|
| <b>Cash</b>                                   | <b>\$ 86,853</b> |
| <b>Restricted Cash</b>                        | <b>56,427</b>    |
| <b>Marketable Securities</b>                  | <b>603</b>       |
| <b>Prepaid Expenses</b>                       | <b>17,800</b>    |
| <b>Loans Receivable- Stockholder/ Officer</b> | <b>201,598</b>   |
| <b>Loans Receivable- Employee</b>             | <b>3,000</b>     |
| <b>Total Current Assets</b>                   | <b>366,281</b>   |

|                                    |               |
|------------------------------------|---------------|
| <b>Property and Equipment, net</b> | <b>11,471</b> |
|------------------------------------|---------------|

**Other Assets:**

|                         |               |
|-------------------------|---------------|
| <b>Security Deposit</b> | <b>14,076</b> |
|-------------------------|---------------|

|                     |                   |
|---------------------|-------------------|
| <b>TOTAL ASSETS</b> | <b>\$ 391,828</b> |
|---------------------|-------------------|

**LIABILITIES AND STOCKHOLDERS' DEFICIT****Current Liabilities:**

|  |                   |
|--|-------------------|
| <b>Notes Payable</b>                     | <b>\$ 100,000</b> |
| <b>Accounts Payable</b>                  | <b>227,392</b>    |
| <b>Accrued Payroll Taxes Payable</b>     | <b>35,269</b>     |
| <b>Accrued Payroll - Related Parties</b> | <b>310,000</b>    |
| <b>Commissions Payable</b>               | <b>656,489</b>    |

|                                  |                  |
|----------------------------------|------------------|
| <b>Total Current Liabilities</b> | <b>1,329,150</b> |
|----------------------------------|------------------|

|                          |                  |
|--------------------------|------------------|
| <b>TOTAL LIABILITIES</b> | <b>1,329,150</b> |
|--------------------------|------------------|

**COMMITMENTS AND CONTINGENCIES****Stockholders' Deficit:**

|  |                   |
|--|-------------------|
| <b>Preferred Stock, \$.01 par value; 10,000,000 shares authorized; no shares issued and outstanding</b>      | <b>—</b>          |
| <b>Common Stock, \$.001 par value; 25,000,000 shares authorized; 6,987,492 shares issued and outstanding</b> | <b>6,987</b>      |
| <b>Additional Paid-In-Capital</b>  | <b>18,605,843</b> |
| <b>Debt Issuance Expense</b>   | <b>(65,313)</b>   |

|   |                     |
|---|---------------------|
| <b>Deferred Compensation</b>                        | <b>(1,144,818)</b>  |
| <b>Deficit Accumulated in the Development Stage</b> | <b>(18,340,021)</b> |
| <b>Total Stockholders' Deficit</b>                  | <b>(937,322)</b>    |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT</b>  | <b>\$ 391,828</b>   |

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

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

|  | FOR THE<br>THREE<br>MONTHS<br>ENDED<br>MARCH 31,<br>2006 | FOR THE<br>THREE<br>MONTHS<br>ENDED<br>MARCH 31,<br>2005 | FOR THE<br>PERIOD<br>FEBRUARY 1,<br>2001<br>(INCEPTION)<br>TO<br>MARCH 31,<br>2006 |
|--|--|--|--|
| <b>REVENUES</b>                                      | \$   | —\$  | —\$  |
| <b>Costs and Expenses:</b>                           |  |  |  |
| General and Administrative Expenses                  | 508,708  | 179,566  | 2,666,046  |
| Research and Development Expenses                    | 142,755  | 32,362   | 661,921  |
| Contract Buyouts Issued In Stock                     | —  | —  | 356,000  |
| Amortization of Deferred Compensation                | 368,196  | 14,583   | 806,182  |
| Compensatory Element of Stock and Option Issuances   | 4,788,812  | —  | 13,836,313   |
| <b>Total Costs and Expenses</b>                      | <b>5,808,471</b>   | <b>226,511</b>   | <b>18,326,462</b>  |
| <b>Loss before Other Income (Expense)</b>            | <b>(5,808,471)</b>                                       | <b>(226,511)</b>   | <b>(18,326,462)</b>  |
| <b>Other Income (Expense)</b>                        |  |  |  |
| Interest Expense                                     | (605)  | —  | (7,617)  |
| Unrealized Gain (Loss) on Marketable Securities      | 143  | —  | (5,942)  |
| <b>Total Other Income (Expense)</b>                  | <b>(462)</b>   | <b>—</b>   | <b>(13,559)</b>  |
| <b>NET LOSS</b>                                      | <b>\$ (5,808,933)</b>                                    | <b>\$ (226,511)</b>                                      | <b>\$ (18,340,021)</b>   |
| <b>Weighted Average Common Shares Outstanding</b>    | <b>6,496,756</b>   | <b>3,168,861</b>   |  |
| <b>Net Loss per Common Share (Basic and Diluted)</b> | <b>\$ (0.89)</b>   | <b>\$ (0.07)</b>   |  |

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<br>THREE<br>MONTHS<br>ENDED<br>MARCH 31,<br>2006<br>(UNAUDITED) | FOR THE<br>THREE<br>MONTHS<br>ENDED<br>MARCH 31,<br>2005<br>(UNAUDITED) | FOR THE<br>PERIOD<br>FEBRUARY 1,<br>2001<br>(INCEPTION)<br>TO<br>MARCH 31,<br>2006<br>(UNAUDITED) |
|--|---|---|---|
| <b><u>Cash Flows from Operating Activities:</u></b>                        |   |   |   |
| Net Loss   | \$ (5,808,933)  | \$ (226,511)  | \$ (18,340,021)   |
| Adjustment to reconcile net loss to net cash used in operating activities: |   |   |   |
| Compensatory Element of Stock and Warrant Issuances                        |   |   |   |
|  | 4,788,813   | 14,583  | 14,192,314  |
| Amortization of Deferred Compensation                                      | 368,196   | —   | 806,182   |
| Amortization of Deferred Debt Issuance Expense                             | 5,938   | —   | 5,938   |
| Depreciation   | 80  | —   | 80  |
| Unrealized (Gain) Loss on Marketable Securities                            | (142)   | —   | 5,943   |
| Change in Operating Assets and Liabilities:                                |   |   |   |
| (Increase) Decrease in Prepaid Expenses                                    | 41,353  | —   | (17,797)  |
| (Increase) Decrease in Security Deposits                                   | 2,460   | (2,860)   | (14,076)  |
| Increase (Decrease) in Accounts Payable                                    | 73,458  | (11,948)  | 109,534   |
| Increase (Decrease) in Accrued Taxes Payable                               | (1,734)   | 14,355  | 35,269  |
| Increase in Accrued Payroll - Related Parties                              | —   | 55,000  | 960,000   |
| Net Cash Used in Operating Activities                                      | (530,511)   | (157,381)   | (2,256,634)   |
| <b><u>Cash Flows from Investing Activities:</u></b>                        |   |   |   |
| Purchase of Fixed Assets   | (11,552)  | —   | (11,552)  |
| Net Cash Used in Operating Activities                                      | (11,552)  | —   | (11,552)  |
| <b><u>Cash Flows from Financing Activities:</u></b>                        |   |   |   |
| Restricted Cash  | 10,000  | (320,000)   | (86,427)  |
| Proceeds of Loans  | —   | —   | 25,000  |
| Proceeds from Notes Payable  | 100,000   | —   | 100,000   |
| Advances from (to) Stockholder/Officer                                     | —   | 40,624  | (381,598)   |
| Repayment of Related Party Loans   | —   | —   | (109,736)   |
| Advances to Employee   | —   | —   | (3,000)   |

|   |           |            |           |
|---|-----------|------------|-----------|
| Repayments of Loans                       | —         | —          | (25,000)  |
| Proceeds from Issuances of Common Stock   | 372,000   | 705,000    | 3,096,750 |
| Commissions Paid on Sales of Common Stock | (37,200)  | —          | (260,950) |
| Net Cash Provided by Investing Activities | 444,800   | 425,624    | 2,355,039 |
| Net Increase (Decrease) in Cash           | (97,263)  | 268,243    | 86,853    |
| Cash, Beginning                           | 184,116   | 31,111     | —         |
| Cash, Ending                              | \$ 86,853 | \$ 299,354 | \$ 86,853 |

**Supplemental Cash Flow Information:**

## Cash Paid During the Period for:

|              |      |      |      |
|--------------|------|------|------|
| Interest     | \$ — | \$ — | \$ — |
| Income Taxes | \$ — | \$ — | \$ — |

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<br>THREE<br>MONTHS<br>ENDED<br>MARCH 31,<br>2006<br>(UNAUDITED) | FOR THE<br>THREE<br>MONTHS<br>ENDED<br>MARCH 31,<br>2005<br>(UNAUDITED) | FOR THE<br>PERIOD<br>FEBRUARY 1,<br>2001<br>(INCEPTION)<br>TO<br>MARCH 31,<br>2006<br>(UNAUDITED) |
|---|---|---|---|
| <b><u>Supplemental Disclosures of Cash Flow Information:</u></b>            |   |   |   |
| <b>Non Cash Financing Activities:</b>                                       |   |   |   |
| <b>Common Stock Issued as Commissions on Sale of Common Stock</b>           | \$  | —\$   | —\$ 1,168,918   |
| <b>Accrued Commissions on Sales of Sales of Common Stock</b>                | \$ 431,706  | \$ 105,000  | \$ 656,489  |
| <b>Reduction of Loans Receivable - Officer Against Accrued Compensation</b> | \$  | —\$   | —\$ 650,000   |
| <b>Issuance of Common Stock - Debt Issuance</b>                             | \$ 71,250   | \$  | —\$ 71,250  |
| <b>Issuance of Common Stock - Deferred Compensation</b>                     | \$ 1,096,000  | \$  | —\$ 1,951,000   |
| <b>Common Stock Issued as Penalty Shares for Non-Registration</b>           | \$ 285,750  | \$  | —\$ 914,750   |
| <b>Cashless Exercise of Stock Options - Related Party</b>                   | \$ 250,000  | \$  | —\$ 250,000   |

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

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**BIOMETRX, INC. AND SUBSIDIARIES**

*(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 \$5,808,933 for the three months ended March 31, 2006. In addition, the Company had a working capital deficiency of \$962,869 and a stockholders' deficit of \$937,322 at March 31, 2006. These factors raise 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**

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.

**Note 3- Restricted Cash**

Restricted cash represents cash held in escrow by corporate counsel to satisfy pre-merger liabilities. Such restricted cash will be released after satisfaction of certain requirements of the Merger Agreement .

**BIOMETRX, INC. AND SUBSIDIARIES**

*(A Development Stage Company)*

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**Note 4- Stockholder's Deficit**

**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.

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 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

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 decrease 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 to Petri and Panico as debt issuance costs.

**BIOMETRX, INC. AND SUBSIDIARIES**

*(A Development Stage Company)*

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**Note 5- Related Party Transactions**

**Loans Receivable - Stockholder/Officer**

These advances are 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. At March 31, 2006 the advances amounted to \$201,598.

**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:

| <u>Number of Shares</u> | <u>Exercise Price</u> |
|-------------------------|-----------------------|
| *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

**BIOMETRX, INC. AND SUBSIDIARIES**

*(A Development Stage Company)*

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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.

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.

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.

**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 Two Hundred and Fifty Thousand (250,000) shares of its common stock. In addition, upon the one (1) year anniversary of the consulting agreement, bioMetrx will issue to Ms. Borow-Johnson an additional Two Hundred and Fifty Thousand (250,000) 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.



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

During February 2006, the Company entered into a one (1) year consulting agreement with Kuhn, and issued him 250,000 shares of common stock 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

**Lease Obligations**

The Company operates its business in leased facilities. The Company currently leases approximately 1800 square feet for its corporate office facilities located at 500 North Broadway, Jericho, New York. The lease expires January 31, 2009. The Company also leases two executive offices at 33 South Service Road, Jericho, New York for \$3,400 per month. The lease for these offices expires July 31, 2006.

Approximate future minimum commitments under these leases are as follows:

| <u>Year Ending December 31,</u>    |            |
|------------------------------------|------------|
| April 1, 2006 to December 31, 2006 | \$ 48,341  |
| 2007                               | 46,000     |
| 2008                               | 52,000     |
| 2009                               | 4,000      |
|                                    | \$ 150,341 |

Rent expense under the office leases was approximately \$25,271 and \$3,167 for the three months ended March 31, 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**

The Company entered into a Securities Purchase Agreement dated as of April 28, 2006, with two 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") each unit consisting of one share of the Company's Series A 5% Convertible Preferred Stock ("Preferred Stock"), 3.333 Series A Common Stock Purchase Warrants ("A Warrants") and 3.333 Series B Common Stock Purchase Warrants ("B Warrants"). At the Closing the Company sold an aggregate of 65,000 Units at an aggregate purchase price of \$650,000 or \$10.00 per Unit. At the closing the Company delivered an aggregate of 65,000 shares of Preferred Stock, 216,666 A Warrants and 216,666 B Warrants. In addition, the Company delivered an aggregate of 21,667 shares of its common stock to the investors, which represents one year of dividends on the Preferred Stock.

**BIOMETRX, INC. AND SUBSIDIARIES**

*(A Development Stage Company)*

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

Each A Warrant entitles the holder to purchase one share of the Company's common stock at an exercise price of \$2.73 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 acknowledgement, 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.

Pursuant to the Selling Agent Letter Agreement between the Company and the Selling Agent, the Selling Agent was paid a cash fee of \$75,000 (10% of the aggregate purchase price of the Units sold to the subscribers) and \$10,000 of expenses. The Company also issued the Selling Agent a warrant to purchase 43,333 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 \$25,000 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, as promptly as reasonably practicable after closing of the Private Placement but in no event later than 30 days following the closing, 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 Units, Warrants and Selling Agent Warrant. If such Registration Statement is not filed within the required time frame, 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.

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



**BIOMETRX, INC. AND SUBSIDIARIES**

*(A Development Stage Company)*

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

## **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, (the "Effective Date,") 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 (the “Effective Date”), 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.”

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's smartSTAT thermostat allows homeowners and small business owner's complete control and security over their costly HVAC systems.

The Company is also developing technology for the medical products market. Currently, devices such as medical crash carts, rolling medicine drawers and cabinets and medical tool supply bins are either accessible in a hallway of a hospital or require medical personnel to enter a 4-digit PIN code to unlock these products. The Company is developing technology to secure these items while simplifying the procedure so that the proper medical personnel can access them quickly when necessary.

bioMETRX, to date, has introduced its products and services commercially and is considered an entry level market vendor of consumer-based biometric products. bioMETRX has limited assets, significant liabilities and limited business operations. To date, activities have been limited to organizational matters, development of its products and services and capital raising.

Management's plan of operations for the next twelve months is to raise additional capital, complete further development of its product line and commence marketing the Company's products and services. The Company expects it will require \$6,000,000 over the next 12 months to accomplish these goals and expects to be financed by the private sale of its securities and lines of credit with commercial banks for continuous manufacturing output of its products. There are no firm commitments on anyone's part to invest in the Company and if it is unable to obtain financing through the sale of its securities or other financing, the Company's products and services may never be commercially sold.

### **Current Market Outlook - Target Markets/Applications**

There is a unique opportunity in the consumer electronics market for the incorporation of biometrics technology in multiple devices, requiring personal identification or key access. Two current examples are biometrically secured laptops (IBM-Lenovo Thinkpad) and cell phones (Samsung SCH370). Prospective home/office security and electronics devices includes the introduction of "biometric" access controls on anything that presently requires a key, keypad or Personal Identification Number ("PIN"). bioMETRX is the first company to offer biometric security and electronics products for the home consumer market at any significant level.

We are focused on developing simple to use, cost efficient, finger activated consumer electronics products principally under the trade name "smartTOUCHÔ". Our current and prospective consumer products include biometrically enabled and secure residential garage/gate door openers/locks, central station alarm pads and thermostats.

### **Product Offerings**

smartTOUCHÔ products allow a person to open a door, or set an alarm or thermostat simply by placing a finger upon a sensor chip, the size of a postage stamp. smartTOUCHÔ products are designed to simplify access, while substantially increasing the security level of the systems used for such purposes. Our smartTOUCHÔ products use one-to-one biometrics matching authenticated systems embodied in its products. The bioMETRX patent-pending system includes a hand held universal programmer designed to control access to the administrative functions of each smartTOUCHÔ device. All smartTOUCHÔ products are designed to work with this universal programmer, and permit up to fifteen (15) authorized users to be enrolled. Our system allows two types of users, an access user who can only operate the smartTOUCHÔ device, and an administrative user who can operate and also add or delete other users.

## **Results of Operations**

From inception (February 1, 2001) through March 31, 2006, bioMetrx has not generated any revenues. During the period from inception (February 1, 2001) through March 31, 2006, bioMetrx had net losses totaling \$18,340,021. During the three months ended March 31, 2006, net losses totaled \$5,808,933. From inception through March 31, 2006, bioMetrx' general and administrative expenses totaled \$2,666,046 or 14.5% of total expenses, while for the three months ended March 31, 2006 general and administrative expenses totaled \$508,708 or 8.8% of total expenses. From inception through March 31, 2006, bioMetrx stock-based compensation of \$13,836,313 or 75.4% of expenses, of which \$4,788,812 or 82.4% of total expenses was incurred during the three months ended March 31, 2006. Research and development costs were \$661,921 or 3.6% of total expenses incurred in the period from inception through March 31, 2006, while research and development costs during the three months ended March 31, 2006 totaled \$142,755 or 2.5% of total expenses.

During the quarter ended March 31, 2006, the Company had \$0 revenues. The Company has beta-tested its garage/gate door opener and will begin marketing this product in the near future. this represents the first product the Company intends to commercially market.

During the three months ended March 31, 2006, net losses totaled \$5,808,933. For the three months ending March 31, 2006, bioMETRX' general and administrative expenses totaled \$508,708, or 8.8% of total operating expenses. During the same three month period in 2005, general and administrative expenses totaled \$179,566, or 79.3% of total operating expenses. The increase was mostly attributable to an increase in professional expenses relating to general corporate matters. For the three months ending March 31, 2006 we incurred salaries of \$267,108, or 4.60% of total operating expenses as compared to the three months ended March 31, 2005 of \$120,000, or 52.98% of total operating expenses. The increase was due to the addition of additional personnel necessary to continue the growth goals of the Company.

For the three months ending March 31, 2006, interest expense was \$605, as compared to \$-0- for the three months ending March 31 2005.

Research and development expenses for the three months ending March 31, 2006 was \$142,755, compared to \$32,362 for the same period in 2005.

## **Liquidity and Capital Resources**

Since inception, bioMetrx Technologies has financed its activities from the private sales of its securities. In November 2001 bioMetrx Technologies issued 275,000 shares of its common stock, valued at \$275,000 (\$1.00 per share), for services rendered. In December 2002, bioMETRX sold 20,000 shares of its common stock for \$5,000 (\$2.50 per share).

In 2003, bioMETRX sold 231,250 shares of its common stock for gross proceeds of \$231,250 or \$1.00 per share. During 2003, bioMETRX issued 75,000 shares of its common stock, valued at \$150,000 (\$2.00 per share), for services rendered to it pursuant to consulting agreements. During 2003, bioMETRX issued 129,500 shares of its common stock, valued at \$518,000 (\$4.00 per share), as commission on sales of its stock. Also in 2003 bioMETRX issued 378,000 shares of its common stock, valued at \$94,500 (\$.25 per share), as commission on sales of its common stock.

In 2004, bioMETRX sold 27,000 shares of its common stock for aggregate gross proceeds of \$27,000 (\$1.00 per share). During that same year, bioMETRX sold 83,750 shares of its common stock for aggregate gross proceeds of \$335,000 (\$4.00 per share). Also in 2004, bioMETRX issued 50,000 and 8,750 shares of its common stock valued at \$200,000 and \$8,750, respectively, as commissions on sales of its common stock.

In July 2005, the Company sold 233,334 shares of its common stock and 46,667 warrants for an aggregate purchase price of \$700,000 or \$3.00 per share without allocating any part of the purchase price for the warrants.

On October 28, 2005 the Company sold 562,500 shares and 562,500 warrants for an aggregate purchase price of \$450,000 or \$.80 per share without allocating any part of the purchase price for the warrants.

The warrants entitle the holder to purchase shares of the Company's common stock for a period commencing on the date of issuance and expiring on December 15, 2005 at an exercise price of \$.80 per share.

As of March 31, 2006 bioMETRX had total assets of \$391,828 and total current assets of \$366,281. At March 31, 2006 bioMETRX had total liabilities of \$1,329,150 and total current liabilities of \$1,329,150 bioMETRX' working capital deficit at March 31 2006 was \$962,869 and an equity deficiency of \$937,322.

From December 2005 to February 2006, the Company sold an aggregate of 746,250 shares to Kuhn for an aggregate purchase price of \$597,000 or \$.80 per share. As part of this transaction, Kuhn exercised 562,500 warrants, which were issued to him on October 28, 2005 in connection with a previously reported financing. In addition to the exercise of the warrants, Kuhn provided the Company with an additional \$147,000 and the Company agreed to issue him the shares at the same purchase price (\$.80 per share) as the warrants.

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 restricted shares of common stock to Petri and Panico as debt issuance costs.

The Company entered into a Securities Purchase Agreement dated as of April 28, 2006, with two 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") each unit consisting of one share of the Company's Series A 5% Convertible Preferred Stock ("Preferred Stock"), 3.333 Series A Common Stock Purchase Warrants ("A Warrants") and 3.333 Series B Common Stock Purchase Warrants ("B Warrants"). At the Closing the Company sold an aggregate of 65,000 Units at an aggregate purchase price of \$650,000 or \$10.00 per Unit. At the closing the Company delivered an aggregate of 65,000 shares of Preferred Stock, 216,666 A Warrants and 216,666 B Warrants. In addition, the Company delivered an aggregate of 21,667 shares of its common stock to the investors, which represents one year of dividends on the Preferred Stock. Pursuant to the Selling Agent Letter Agreement between the Company and the Selling Agent, the Selling Agent was paid a cash fee of \$75,000 (10% of the aggregate purchase price of the Units sold to the subscribers and \$10,000 of expenses). In addition, the Company paid \$15,000 to the Selling agent's counsel and \$25,000 to its counsel.

bioMETRX is dependent on raising additional funding necessary to implement its business plan. bioMETRX' auditors have issued a "going concern" opinion on the financial statement for the year ended December 31, 2005, indicating bioMETRX is in the development stage of operations, has a working capital and net equity deficiency. These factors raise substantial doubt in bioMETRX' ability to continue as a going concern. If bioMETRX is unable to raise the funds necessary to complete the development of its products and fund its operations, it is unlikely that bioMETRX will remain as a viable going concern.

**Critical Accounting Policies and Estimates:**

Our financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make significant estimates and judgments that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosure of contingent assets and liabilities. We evaluate our estimates, including those related to contingencies, on an ongoing basis. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policy, among others; involve the more significant judgments and estimates used in the preparation of our consolidated financial statements:

The Company accounts for compensation costs associated with stock options and warrants issued to non-employees using the fair-value based method prescribed by Financial Accounting Standard No. 123 - Accounting for Stock-Based Compensation. The Company uses the Black-Scholes options-pricing model to determine the fair value of these instruments as well as to determine the values of options granted to certain lenders by the principal stockholder. The following estimates are used for grants in 2005: Expected future volatility over the expected lives of these instruments is estimated to mirror historical experience, measured by a weighted average of closing share prices prior to each measurement date. Expected lives are estimated based on management's judgment of the time period by which these instruments will be exercised.



## Information Relating To Forward-Looking Statements

When used in this Report on Form 10-QSB, the words “may,” “will,” “expect,” “anticipate,” “continue,” “estimate,” “intend,” and similar expressions are intended to identify forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 regarding events, conditions and financial trends which may affect the Company’s future plans of operations, business strategy, operating results and financial position. Such statements are not guarantees of future performance and are subject to risks and uncertainties and actual results may differ materially from those included within the forward-looking statements as a result of various factors. Such factors include, among others: (i) the Company’s ability to obtain additional sources of capital to fund continuing operations; in the event it is unable to timely generate revenues (ii) the Company’s ability to retain existing or obtain additional licensees who will act as distributors of its products; (iii) the Company’s ability to obtain additional patent protection for its technology; and (iv) other economic, competitive and governmental factors affecting the Company’s operations, market, products and services. Additional factors are described in the Company’s other public reports and filings with the Securities and Exchange Commission. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date made. The Company undertakes no obligation to publicly release the result of any revision of these forward-looking statements to reflect events or circumstances after the date they are made or to reflect the occurrence of unanticipated events.

## Recent 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.

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 December 31, 2005, the Company had no unvested options.

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.

## COMMITMENTS

We do not have any commitments that are required to be disclosed in tabular form as of December 31, 2005 and as of March 31, 2006.

## OFF BALANCE SHEET ARRANGEMENTS

We do not have any off balance sheet arrangements.

## Item 3: Controls and Procedures

Pursuant to provisions of the Securities Exchange Act of 1934, the Company's Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under their supervision, for the Company. They have designed such disclosure controls and procedures to ensure that material information relating to the Company, is made known to them by others within the Company, particularly during the periods when the Company's quarterly and annual reports are being prepared.

Changes in Internal Controls. During the first quarter of fiscal year 2006, there were no changes in our internal control over financial reporting that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. However, we intend to continue to refine our internal controls on an ongoing basis. Our management and our independent auditors have reported to our board of directors certain matters involving internal controls that our independent auditors considered to be material weaknesses, under standards established by the American Institute of Certified Public Accountants. The material weakness relates to the December 31, 2004 financial closing process. Certain adjustments were identified in the annual audit process, related to the accounting for stocks received by customers, payment of commissions with marketable securities, as well as the lack of segregation of duties in the process of cash receipts and disbursements. In addition, there were instances where accounting analyses did not include evidence of a timely review. The adjustments related to these matters were made by the Company in connection with the preparation of the audited financial statements for the year ended December 31, 2004.

Given these material weaknesses, management devoted additional resources to resolving questions that arose during our year-end audit. As a result, we are confident that our consolidated financial statements for the year ended December 31, 2005 and for this quarter ended March 31, 2006 fairly present, in all material respects, our financial condition and results of operations.

The material weaknesses have been discussed in detail among management, our board of directors and our independent auditors, and we are committed to addressing and resolving these matters fully and promptly, by putting in place the personnel, processes, technology and other resources appropriate to support our revenue recognition and financial close processes. In that regard we will contract a full time CPA who will serve as our CFO and will assist in the preparation of our financial statements, 10-QSB's and 10-KSB's. We have completed a full review of our accounting practices and have implemented a number of process improvements. We completed a review of our financial disclosure process and we have implemented needed improvements in this quarter ending March 31, 2006.

**PART II - OTHER INFORMATION**

**Item 1: Legal Proceedings**

None

**Item 2: Changes in Securities and Use of Proceeds**

(a) None

(b) None

(c) On January 4, 2006, the Company issued 12,500 restricted shares of its common stock to Ms. Lorraine Yarde in connection with the exercise of a stock option in such amount. The exercise price of the option was \$.40 per share.

From December 2005 to February 2006, the Company sold an aggregate of 746,250 shares to Kuhn for an aggregate purchase price of \$597,000 or \$.80 per share. As part of this transaction, Kuhn exercised 562,500 warrants, which were issued to him on October 28, 2005 in connection with a previously reported financing. In addition to the exercise of the warrants, Kuhn provided the Company with an additional \$147,000 and the Company agreed to issue him the shares at the same purchase price (\$.80 per share) as the warrants.

In connection with this transaction, the Company paid a finder's fee to Harbor View of \$70,950 and issued to Harbor View 164,175 shares of its common stock.

On February 27, 2006, the Company issued 25,000 restricted shares of its common stock to Empire Relations Group, Inc. pursuant to a consulting agreement between the Company and Empire Relations Group.

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" and was issued 179,578 shares of common stock.

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 restricted shares of common stock to Petri and Panico as debt issuance costs.

The Company entered into a Securities Purchase Agreement dated as of April 28, 2006, with two 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") each unit consisting of one share of the Company's Series A 5% Convertible Preferred Stock ("Preferred Stock"), 3.333 Series A Common Stock Purchase Warrants ("A Warrants") and 3.333 Series B Common Stock Purchase Warrants ("B Warrants"). At the Closing the Company sold an aggregate of 65,000 Units at an aggregate purchase price of \$650,000 or \$10.00 per Unit. At the closing the Company delivered an aggregate of 65,000 shares of Preferred Stock, 216,666 A Warrants and 216,666 B Warrants. In addition, the Company delivered an aggregate of 21,667 shares of its common stock to the investors, which represents one year of dividends on the Preferred Stock.

Each A Warrant entitles the holder to purchase one share of the Company's common stock at an exercise price of \$2.73 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 acknowledgement, 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.

Pursuant to the Selling Agent Letter Agreement between the Company and the Selling Agent, the Selling Agent was paid a cash fee of \$75,000 (10% of the aggregate purchase price of the Units sold to the subscribers) and \$10,000 of expenses. The Company also issued the Selling Agent a warrant to purchase 43,333 shares of its common stock on the same terms as the A Warrants. In addition, the Company paid \$1,500 to the Selling Agent's counsel and \$25,000 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, as promptly as reasonably practicable after closing of the Private Placement but in no event later than 30 days following the closing, 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 Units, Warrants and Selling Agent Warrant. If such Registration Statement is not filed within the required time frame, 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.

On May 4, 2006, the Company issued 20,000 restricted shares of its common stock 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 to New Castle Consulting, LLC pursuant to a Consulting Agreement entered into between the parties on April 10, 2006.

The securities discussed above were offered and sold in reliance upon exemptions from the registration requirements of Section 5 of the Securities Act of 1933, as amended (the "Act"), pursuant to Section 4(2) of the Act and Rule 506 promulgated thereunder. Such securities were sold exclusively to accredited investors as defined by Rule 501(a) under the Act.

(d)

Not Applicable

### **Item 3.: Defaults upon Senior Securities**

None

### **Item 4.: Submission of Matters to a Vote of Security Holders**

Pursuant to a written consent of a majority of the Company's shareholders, the Company approved an amendment of its Certificate of Incorporation which (a) reverse split the outstanding shares of the Company's common stock one-for-four; (b) increased the number of shares of common stock the Company is authorized to issue to 25,000,000; and (c) decreased the par value to \$.001.

### **Item 5.: Other Information**

On March 17, 2006 the Company entered into a Letter of Engagement with Pasadena Capital Partners, LLC ("Pasadena"). Pasadena was hired to develop and implement a proactive marketing program designed to (a) increase the awareness of the Company; and (b) generate a significant increase in liquidity and market capitalization. In addition, upon request by the Company, Pasadena may advise the Company in business development and strategic advisory service. The initial term of this engagement is three (3) months which may be extended on a month to month basis. The Company is paying Pasadena \$6,000 per month for so long as it is retained by the Company;. In addition on May 4, 2006, the Company issued Pasadena 20,000 restricted shares of its common stock.

On April 20, 2006 the Company entered into a Consulting Agreement with new Castle Consulting, LLC ("New Castle"). New Castle was hired to assist the Company in identifying investor relations, public relations and market relations organizations which may be utilized by the Company. The term of this agreement is six (6) months. On May 3, 2006, as compensation, the Company issued New Castle 180,000 restricted shares of its common stock.

**Item 6.: Exhibits**

(a) The following exhibits are filed as part of this report:

- 10.1 Letter of Engagement dated March 17, 2006, between the Company and Pasadena Capital Partners, LLC
- 10.2 Consulting Agreement dated April 10, 2006 between the Company and New Castle Consulting, LLC
- 31.1 Certification of Chief Executive Officer of Periodic Report Pursuant to Rule 13a-14(a) and Rule 15d-14(a)
- 31.2 Certification of Chief Financial Officer of Periodic Report Pursuant to Rule 13a-14(a) and Rule 15d-14(a)
- 32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350
- 32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350

**SIGNATURES**

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

Dated: May 15, 2005

**COBIOMETRX, INC.**

By: /s/ Mark Basile

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Mark Basile  
Chief Executive Officer

By: /s/ Frank Giannuzzi

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Frank Giannuzzi  
Chief Financial Officer