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

FORM 10-Q

☒ **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 number: 000-53944

VIRTUAL PIGGY, INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	35-2327649
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1221 Hermosa Avenue, Suite 210
Hermosa Beach, CA 90254
(Address of principal executive offices) (Zip Code)

(310) 853-1949
(Registrant's telephone number, including area code)

____
(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 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 ☒ 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 Regulations 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 ☒ 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.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
YES ☐ NO ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 92,307,983 shares of common stock outstanding at November 7, 2012.

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PART I - FINANCIAL INFORMATION

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(A Development Stage Enterprise)
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September 30, 2012

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Virtual Piggy, Inc.
(A Development Stage Enterprise)
Balance Sheets

	September 30, 2012 (Unaudited)	December 31, 2011 (Audited)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 3,119,056	$ 186,159
Accounts Receivable	1,375	2,500
Prepaid expenses	25,500	1,765
TOTAL CURRENT ASSETS	3,145,931	190,424
PROPERTY AND EQUIPMENT		
Computer equipment	63,524	15,679
Furniture and fixtures	46,130	-
	109,654	15,679
Less: accumulated depreciation	(14,516)	(6,244)
	95,138	9,435
OTHER ASSETS		
Deposit	64,900	2,667
Patents and trademarks, net of accumulated amoritization of $9,168 and $1,622	268,856	78,013
	333,756	80,680
TOTAL ASSETS	$ 3,574,825	$ 280,539
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 382,575	$ 358,513
Notes payable, net of discount of $0 and $65,560	-	284,440
TOTAL CURRENT LIABILITIES	382,575	642,953
CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Preferred stock, $.0001 par value; 2,000,000 shares authorized; none issued and outstanding at September 30, 2012 and December 31, 2011	-	-
Common stock, $ .0001 par value; 150,000,000 shares authorized; 92,307,983 and 66,871,422 shares issued and outstanding at September 30, 2012 and December 31, 2011	9,231	6,687
Common stock subscribed	250,000	-
Common stock subscription receivable	(250,000)	-
Additional paid in capital	19,284,022	7,065,247
Deficit accumulated during the development stage	(16,101,003)	(7,434,348)
STOCKHOLDERS' EQUITY (DEFICIT)	3,192,250	(362,414)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	$ 3,574,825	$ 280,539

See accompanying notes to these financial statements.

Virtual Piggy, Inc.
(A Development Stage Enterprise)
Statements of Operations
For the Three and Nine Months Ended September 30, 2012 and 2011 and
For the period February 11, 2008 (Date of Inception) to September 30, 2012
(Unaudited)

	Cumulative Since Inception	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
SALES	$ 5,121	$ 8	$ 1,700	1,195	$ 3,126
OPERATING EXPENSES					
General and administrative	1,448,910	320,052	56,487	871,823	194,840
Consulting	7,538,304	242,116	297,417	4,422,241	947,207
Marketing	635,695	143,484	7,600	463,109	104,186
Payroll	2,171,015	886,215	-	1,740,952	16,733
Professional fees	1,386,294	118,724	79,526	361,036	265,583
Research and development	1,183,180	188,717	185,167	356,096	407,738
Travel	1,217,291	121,344	15,960	365,481	125,673
Total operating expenses	15,580,689	2,020,652	642,157	8,580,738	2,061,960
OTHER INCOME (EXPENSE)					
Interest income	6,399	1,910	50	3,448	1,717
Interest expense	(531,834)	-	(1,418)	(90,560)	(1,418)
	(525,435)	1,910	(1,368)	(87,112)	299
NET LOSS	$ (16,101,003)	$ (2,018,734)	$ (641,825)	$ (8,666,655)	$ (2,058,535)
BASIC AND DILUTED NET LOSS PER COMMON SHARE		$ (0.02)	$ (0.01)	$ (0.11)	$ (0.03)
BASIC AND DILUTED WEIGHTED AVERAGE COMMON SHARES OUTSTANDING		91,599,649	65,483,922	82,087,967	65,453,366

See accompanying notes to these financial statements.

Virtual Piggy, Inc.
(A Development Stage Enterprise)
Statement of Changes in Stockholders' Equity (Deficit)
For the Period February 11, 2008 (Date of Inception) to September 30, 2012

	Common Stock					Deficit Accumulated During the Development Stage	
	Number of Shares	Amount	Common Stock Subscribed	Common Stock Subscription Receivable	Additional Paid-In Capital		Total
Issuance of initial 19,000,000 shares on February 11, 2008 at $.001 per share	19,000,000	$ 1,900	$ -	$ -	$ 17,100	$ -	$ 19,000
Issuance of shares of common stock and 14,285,716 warrants in February 2008 through private placement at $.035 per unit	7,142,858	714	-	-	249,286	-	250,000
Employee options issued for services on March 3, 2008, vested immediately and valued at $.02 per share	-	-	-	-	8,825	-	8,825
Nonemployee options issued for services on March 3,2008, vested immediately and valued at $.02 per share	-	-	-	-	107,859	-	107,859
Exercise of options on May 8, 2008 at $.04 per share	500,000	50	-	-	19,950	-	20,000
Issuance of shares of common stock and 614,286 warrants in May and September 2008 through private placement at $.75 per unit	6,642,858	665	-	-	231,835	-	232,500
Options issued for services in June 2008, vested immediately and valued at $.07 per share	-	-	-	-	395,467	-	395,467
Nonemployee options issued for services in June 19, 2008, vested immediately and valued at $.01 per share	-	-	-	-	918	-	918
Issuance of shares of common stock to investors in August 2008 at $1.00 per share	2,560	-	-	-	2,560	-	2,560
Exercise of options in September 2008 at $.04 per share	1,750,000	175	-	-	69,825	-	70,000
Exercise of warrants in September 2008 at $.04 per share	250,000	25	-	-	9,975	-	10,000
Net loss	-	-	-	-	-	(983,886)	(983,886)
Balance, December 31, 2008	35,288,276	3,529	-	-	1,113,600	(983,886)	133,243
Exercise of options on January 26, 2009 at $.04 per share	1,000,000	100	-	-	39,900	-	40,000
Issuance of shares of common stock on April 7, 2009 at $1.00 per share	400,000	40	-	-	399,960	-	400,000
Issuance of shares of common stock on June 29, 2009 valued at $2.00 per share	100,000	10	-	-	199,990	-	200,000
Exercise of options on July 30, 2009 at $.04 per share	1,000,000	100	-	-	39,900	-	40,000
Nonemployee options issued for services on August 18, 2009, vested immediately and valued at $.31 per share	-	-	-	-	10,462	-	10,462
Exercise of warrants on August 21, 2009 at $.04 per share	1,000,000	100	-	-	39,900	-	40,000
Exercise of options on September 2, 2009 at $.04 per share	500,000	50	-	-	19,950	-	20,000
Issuance of shares of common stock on September 17, 2009 at $1.00 per share	100,000	10	-	-	99,990	-	100,000
Issuance of shares of common stock for future services on October 9, 2009 valued at $1.00 per share	1,080,427	108	-	-	1,080,319	-	1,080,427
Issuance of shares of common stock on October 16, 2009 at $1.00 per share	100,000	10	-	-	99,990	-	100,000
Exercise of warrants on October 22, 2009 at $.04 per share	1,000,000	100	-	-	39,900	-	40,000
Exercise of warrants on December 2, 2009 at $.04 per share	1,000,000	100	-	-	39,900	-	40,000
Exercise of options on December 10, 2009 at $.04 per share	250,000	25	-	-	9,975	-	10,000
Exercise of warrants on December 31, 2009 at $.04 per share	1,000,000	100	-	-	39,900	-	40,000
Stock issuance costs	-	-	-	-	(65,000)	-	(65,000)
Nonemployee options issued for services on March 3,2008, vested immediately and valued at $.02 per share	-	-	-	-	37,506	-	37,506
Nonemployee options issued for services in June 19, 2008, vested immediately and valued at $.01 per share	-	-	-	-	636	-	636
Net loss	-	-	-	-	-	(2,236,476)	(2,236,476)
Balance, December 31, 2009	43,818,703	4,382	-	-	3,246,778	(3,220,362)	30,798

See accompanying notes to these financial statements.

Virtual Piggy, Inc.
(A Development Stage Enterprise)
Statement of Changes in Stockholders' Equity (Deficit) (Continued)
For the Period February 11, 2008 (Date of Inception) to September 30, 2012

	Common Stock Number of Shares	Common Stock Amount	Common Stock Subscribed	Common Stock Subscription Receivable	Additional Paid-In Capital	Deficit Accumulated During the Development Stage	Total
Exercise of options on January 5, 2010 at $.04 per share	1,000,000	100	-	-	39,900	-	40,000
Exercise of warrant on February 22, 2010 at $.04 per share	892,858	89	-	-	35,624	-	35,713
Exercise of warrants in March 2010 at $.04 per share	1,000,000	100	-	-	39,900	-	40,000
Exercise of warrants in April 2010 at $.04 per share	2,500,000	250	-	-	99,750	-	100,000
Issuance of shares of common stock in conjunction with notes payable in May through August 2010	483,750	48	-	-	400,694	-	400,742
Issuance of shares of common stock for retirement of 400,000 options at $.25 per share	65,000	6	-	-	(6)	-	-
Issuance of share of common stock from August through December 2010 through private placement at $.20 per share	9,625,000	963	-	-	1,924,037	-	1,925,000
Issuance of shares of common stock on November 1, 2010 for the conversion of notes payable at $.20 per share	375,000	38	-	-	74,962	-	75,000
Issuance of shares of common stock on November 19, 2010 for future services valued at $.90 per share	111,111	11	-	-	99,989	-	100,000
Exercise of options on December 2, 2010 at $.04 per share	3,000,000	300	-	-	119,700	-	120,000
Exercise of warrants in December 2010 at $.04 per share	2,500,000	250	-	-	99,750	-	100,000
Nonemployee options issued for services from August through November 2010, vested immediately and valued at $.01 per share	-	-	-	-	13,816	-	13,816
Nonemployee options issued for services on August 18, 2009, vested immediately and valued at $.31 per share	-	-	-	-	27,899	-	27,899
Net loss	-	-	-	-	-	(1,489,190)	(1,489,190)
Balance, December 31, 2010	65,371,422	6,537	-	-	6,222,793	(4,709,552)	1,519,778
Issuance of shares of common stock for future services on June 1, 2011 valued at $.49 per share	100,000	10	-	-	48,990	-	49,000
Issuance of shares of common stock in conjunction with notes payable from September through December 2011	150,000	15	-	-	82,650	-	82,665
Issuance of shares of common stock and 625,000 warrants on December 20, 2011 through private placement at $.80 per unit	1,250,000	125	-	-	499,875	-	500,000
Issuance of warrants in conjunction with notes payable from September through December 2011	-	-	-	-	20,930	-	20,930
Fair value of revalued warrants at $.09 to $.76 per share	-	-	-	-	88,601	-	88,601
Nonemployee options issued for services from August through November 2010, vested immediately and valued at $.01 per share	-	-	-	-	3,146	-	3,146
Nonemployee options issued for services on January 24, 2011, vested immediately and valued at $.20 per share	-	-	-	-	46,019	-	46,019
Nonemployee options issued for services from July through August 2011, vested immediately and valued from $.10 to $.19 per share	-	-	-	-	52,243	-	52,243
Net loss	-	-	-	-	-	(2,724,796)	(2,724,796)
Balance December 31, 2011 (Audited)	66,871,422	6,687	-	-	7,065,247	(7,434,348)	(362,414)

See accompanying notes to these financial statements.

Virtual Piggy, Inc.
(A Development Stage Enterprise)
Statement of Changes in Stockholders' Equity (Deficit) (Continued)
For the Period February 11, 2008 (Date of Inception) to September 30, 2012

	Common Stock Number of Shares	Common Stock Amount	Common Stock Subscribed	Common Stock Subscription Receivable	Additional Paid-In Capital	Deficit Accumulated During the Development Stage	Total
Issuance of shares of common stock and 10,213,474 warrants through June 30, 2012 through private placement at $.70 per unit	20,426,948	2,044	-	-	7,084,888	-	7,086,932
Issuance of shares of common stock and 937,500 warrants through September 30, 2012 through private placement at $.80 per unit	1,875,000	187	-	-	749,813	-	750,000
Issuance of shares of common stock for future services on May 21, 2012 valued at $2.43 per share	1,363,185	136	-	-	3,312,401	-	3,312,537
Issuance of shares of common stock and 285,714 warrants to discharge notes payable and accrued interest valued at $.70 per unit	571,428	57	-	-	199,943	-	200,000
Issuance of shares of common stock with respect to a settlement agreement valued at $.85 per share	350,000	35	-	-	297,465	-	297,500
Issuance of shares of common stock and 187,500 warrants on July 31, 2012 through private placement at $.80 per unit	250,000	25	-	-	99,975	-	100,000
Exercise of options on April 10, 2012 at $.04 per share	250,000	25	-	-	9,975	-	10,000
Exercise of options on May 25, 2012 at $.04 per share	350,000	35	-	-	13,965	-	14,000
Nonemployee options issued for services from July through August 2011, vested immediately and valued from $.10 to $.19 per share	-	-	-	-	2,219	-	2,219
Nonemployee options issued for services from January through September 2012, vested immediately and valued from $.14 to $.42 per share	-	-	-	-	235,349	-	235,349
Employee options issued for services on January 2012 through September 2012, vesting over three years and valued at $.11 to $.53 per share	-	-	-	-	156,503	-	156,503
Employee options issued for services on June 5, 2012, vesting immediately and valued at $.42 per share	-	-	-	-	84,279	-	84,279
Stock issuance costs	-	-	-	-	(28,000)	-	(28,000)
Common stock subscription for 312,500 units through private placement at $.80 per unit	-	-	250,000	(250,000)	-	-	-
Net loss	-	-	-	-	-	(8,666,655)	(8,666,655)
Balance September 30, 2012 (Unaudited)	92,307,983	9,231	250,000	(250,000)	19,284,022	(16,101,003)	3,192,250

See accompanying notes to these financial statements.

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Virtual Piggy, Inc.
(A Development Stage Enterprise)
Statements of Cash Flows
For the Nine Months Ended September 30, 2012 and 2011 and
For the period February 11, 2008 (Date of Inception) to September 30, 2012

	Cumulative Since Inception	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss	$ (16,101,003)	$ (8,666,655)	$ (2,058,535)
Adjustments to reconcile net loss to net cash used in operating activities			
Fair value of warrants issued in exchange for services	88,601	-	88,601
Fair value of options issued in exchange for services	1,183,147	478,350	99,945
Fair value of stock issued in exchange for services	4,741,964	3,312,537	49,000
Amortization of deferred costs	78,243	-	-
Accretion of discount on notes payable	426,095	65,560	1,418
Depreciation and amortization	23,684	15,818	2,754
Provision for bad debt	42,768	-	-
(Increase) decrease in assets			
Accounts receivable	(1,375)	1,125	(1,700)
Other receivable	(42,768)	-	-
Prepaid expenses	(25,500)	(23,735)	15,882
Deposits	(64,900)	(62,233)	-
Increase in liabilities			
Accounts payable and accrued expenses	705,074	346,561	142,097
Net cash used in operating activities	(8,945,970)	(4,532,672)	(1,660,538)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of equipment	(109,653)	(93,975)	(2,699)
Patent and Trademark costs	(278,024)	(198,388)	(41,179)
Net cash used in investing activities	(387,677)	(292,363)	(43,878)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from note payable - stockholders	747,500	-	-
Repayment of note payable - stockholders	(572,500)	(175,000)	-
Proceeds from notes payable	75,000	-	150,000
Proceeds from issuance of common stock	11,465,989	7,936,932	-
Proceeds from exercise of options	384,000	24,000	-
Proceeds from exercise of warrants	445,714	-	-
Stock issuance costs	(93,000)	(28,000)	-
Net cash provided by financing activities	12,452,703	7,757,932	150,000
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,119,056	2,932,897	(1,554,416)
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	-	186,159	1,574,448
CASH AND CASH EQUIVALENTS - END OF PERIOD	$ 3,119,056	$ 3,119,056	$ 20,032
SUPPLEMENTAL SCHEDULE OF NON-CASH FINANCING ACTIVITIES:			
Income taxes paid	$ -	$ -	$ -
Interest paid	$ 2,498	$ -	$ -
Fair value of common stock issued as discount for notes payable	$ 483,409	$ -	$ -
Conversion of notes payable into common stock	$ 275,000	$ 200,000	$ -
Fair value of warrants issued as discount for notes payable	$ 20,930	$ -	$ -
Common stock subscription	$ 250,000	$ 250,000	$ -

See accompanying notes to these financial statements.

Virtual Piggy, Inc.
(A Development Stage Enterprise)
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of the Business

Virtual Piggy, Inc. (the "Company") is a development stage enterprise incorporated in the state of Delaware on February 11, 2008. The Company initially concentrated its efforts on developing a business plan which was designed to allow it to create the massive multiplayer online gaming platform (the "Platform") and massive multiplayer online games ("MMOGs") for use on its Platform. Those activities included, but were not limited to, securing initial capital in order to fund the development of a demonstration model for portions of the Platform and working capital, securing a board of directors, management personnel and consultants who the Company believes will assist in developing the Platform and meet the business goals, conducting market research regarding the MMOG industry and the Platform and planned MMOGs, and other pre-marketing activities. Commencing in the fourth quarter of 2010, in light of the Company's belief that increased market interest towards the security aspects of online gaming and social networking have emerged, the Company has refocused its efforts towards delivering a platform technology designed to manage the under 18 age group's online experience in a secure manner. The Company has developed and introduced the Virtual Piggy product to the marketplace and is attempting to develop and introduce the ParentMatch product to the marketplace in 2013 to 2014.

Virtual Piggy is designed to provide an online piggy bank security service that allows parents to setup and control their children's spending online. Parents and guardians will be able to determine who is allowed to contribute to their child's account as well as provide notification mechanisms back to the contributors when the funds are spent. The parent can establish how much a child can spend in a single transaction and how much they can spend over time. The Virtual Piggy service tracks all spending and the parent can receive alerts and reports on spending patterns. A third-party site would prompt a child to enter their VirtualPiggy ID – when they attempt to make a transaction. This ID along with category, pricing and descriptive information about the purchase would be sent to the VirtualPiggy webservice. Based on the rules set out by the parent, VirtualPiggy would send back a Yes/No signal to the requesting service and either allow or prohibit the transaction.

ParentMatch, and its companion product, ParentPlayback, will be designed to provide the parent/guardian with a higher level of control than is currently provided by 'nanny' type services. In addition the ID follows the child whenever they are on a computer as opposed to traditional controls which are resident on a PC by PC basis. ParentMatch provides filtering for the parent to be able to control such areas as (i) sites a child may access; (ii) types of content they may view and (iii) who they can interact with online. ParentPlayback will provide the parent with a video transcript of their child's online session. Since inception, substantially all of the efforts of the Company have been developing technologies for the Virtual Piggy, ParentMatch and ParentPlayback platforms. The Company is in the development stage of raising capital, financial planning, establishing sources of supply, and acquiring property and equipment. The Company anticipates establishing global markets for its services.

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation

The financial statements are presented in accordance with Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC") 915 for development stage entities. The accompanying unaudited financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions for Form 10-Q and Rule 8-03 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The financial statements should be read in conjunction with the financial statements and notes included in the Company's Annual Report on form 10-K for the year ended December 31, 2011 as filed with the Securities and Exchange Commission. Operating results for the nine months ended September 30, 2012 are not necessarily indicative of the results that may be expected for the year ended December 31, 2012.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Comprehensive Income

The Company follows FASB ASC 220 in reporting comprehensive income. Comprehensive income is a more inclusive financial reporting methodology that includes disclosure of certain financial information that historically has not been recognized in the calculation of net income. Since the Company has no items of other comprehensive income (loss), comprehensive income (loss) is equal to net income (loss).

Fair Value of Financial Instruments

The Company's financial instruments consist of cash, accounts receivable, notes payable and accounts payable and accrued expenses. The carrying value of cash, accounts receivable, notes payable and accounts payable and accrued expenses approximate fair value, because of their short maturity.

Concentration of Credit Risk Involving Cash

The Company may have deposits with a financial institution which at times exceed Federal Depository Insurance coverage of $250,000.

Cash and Cash Equivalents

For purposes of reporting cash flows, the Company considers all cash accounts, which are not subject to withdrawal restrictions or penalties, and certificates of deposit and commercial paper with original maturities of 90 days or less to be cash or cash equivalents.

Virtual Piggy, Inc.
(A Development Stage Enterprise)
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition
In accordance with Securities and Exchange Commission ("SEC") Staff Accounting Bulletin ("SAB") No. 104, *Revenue Recognition* (Codified in FASB ASC 605), the Company will recognize revenue when (i) persuasive evidence of a customer or distributor arrangement exists or acceptance occurs, (ii) a retailer, distributor or wholesaler receives the goods, (iii) the price is fixed or determinable, and (iv) collectability of the sales revenues is reasonably assured. Subject to these criteria, the Company will generally recognize revenue from Virtual Piggy and Virtual Parent at the time of the sale of the associated product.

Income Taxes
The Company follows FASB ASC 740 when accounting for income taxes, which requires an asset and liability approach to financial accounting and reporting for income taxes. Deferred income tax assets and liabilities are computed annually for temporary differences between the financial statements and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities. Tax years from 2008 through 2011 remain subject to examination by major tax jurisdictions.

Loss Per Share
The Company follows FASB ASC 260 when reporting Earnings Per Share resulting in the presentation of basic and diluted earnings per share. Because the Company reported a net loss for the three and nine months ended September 30, 2012 and 2011, common stock equivalents, including stock options and warrants were anti-dilutive; therefore, the amounts reported for basic and dilutive loss per share were the same.

Start-up Costs
In accordance with FASB ASC 720, start-up costs are expensed as incurred.

Research and Development Costs
In accordance with FASB ASC 730, research and development costs are expensed when incurred.

Recently Adopted Accounting Pronouncements
As of September 30, 2012 and for the period then ended, there were no recently adopted accounting pronouncements that had a material effect on the Company's financial statements.

Recently Issued Accounting Pronouncements Not Yet Adopted
As of September 30, 2012, there were no recently issued accounting standards not yet adopted which would have a material effect on the Company's financial statements.

Reclassifications
Certain reclassifications were made to the 2011 financial statements in order to conform to the 2012 financial statement presentation.

Virtual Piggy, Inc.
(A Development Stage Enterprise)
Notes to Financial Statements

NOTE 2 – GOING CONCERN

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company has incurred significant losses and experienced negative cash flow from operations during the development stage. These conditions raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Since inception, the Company has focused on developing and implementing its business plan. The Company has begun to pay salaries to management and has utilized offshore programmers on a work for hire basis to assist in developing the demonstration model. The Company believes that its existing cash resources will not be sufficient to sustain operations during the next twelve months. The Company currently needs to generate revenue in order to sustain its operations. In the event that the Company cannot generate sufficient revenue to sustain its operations, the Company will need to reduce expenses or obtain financing through the sale of debt and equity securities. The issuance of additional equity would result in dilution to existing shareholders. If the Company is unable to obtain additional funds when they are needed or if such funds cannot be obtained on terms acceptable to the Company, the Company may be unable to execute upon the business plan or pay costs and expenses as they are incurred, which could have a material, adverse effect on the business, financial condition and results of operations.

The Company's current monetization model is to derive a percentage of all revenues generated by online merchants using the Virtual Piggy service. Merchants are billed at the end of each month for all transactions that have been processed by the Company on their behalf in the prior month. As the merchant base and consumer base grows, and as the trend to higher online spending levels continues, the Company expects to generate sufficient revenue to support operations.

If sufficient revenues are not generated to sustain operations or additional funding cannot be obtained in the short term, the Company will need to reduce monthly expenditures to a level that will enable the Company to continue until such funds can be obtained. The Company raised $2,717,650, net of stock issuance costs of $28,000 through a private placement of its equity securities from December 31, 2011 through March 31, 2012. The Company also raised $4,341,282 through an additional private placement from April 5, 2012 through June 30, 2012 and has received commitments for an additional $1,100,000 through other private placements of which the Company has received $850,000 through September 30, 2012. The Company expects to receive the remaining $250,000 in November 2012.

The Company is in the development stage at September 30, 2012. Successful completion of the Company's development program, and the attainment of profitable operations are dependent upon future events, including obtaining adequate financing to fulfill its development activities and achieving a level of sales adequate to support the Company's cost structure. However, there can be no assurances that the Company will be able to secure additional equity investment or achieve an adequate sales level.

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NOTE 3 – PATENTS

The Company continues to apply for patents. Accordingly, costs associated with the registration of these patents have been capitalized and are amortized on a straight-line basis over the estimated lives of the patents (20 years). During the three and nine months ended September 30, 2012, capitalized patent costs were $33,055 and $198,388 and for the three and nine months ended September 30, 2011, capitalized patent costs were $14,336 and $41,179. Amortization expense for patents was $3,375 and $7,546 for the three and nine months ended September 30, 2012 and $304 and $536 for the three and nine months ended September 30, 2011.

NOTE 4 – NOTES PAYABLE

In September 2011, the Company commenced a private placement of up to 10 units at a price of $50,000 per unit to accredited investors. One unit consists of a demand note payable in the amount of $50,000 due November 12, 2012, warrants to purchase 15,000 shares of common stock at an exercise price of $.50 per share with a term expiring November 12, 2012, and 15,000 shares of common stock. In December 2011, the Company completed the private placement and raised $500,000. The warrants were valued at $20,930, fair value, using the Black-Scholes option pricing model to calculate the grant-date fair value of the options, with the following assumptions: no dividend yield, expected volatility of 39.8% to 62.8%, risk free interest rate of .1% and expected option life of 1.2 years. The shares of common stock were valued at $82,655 or $.45 to $.70 per share, fair value. Both the warrant value and the shares of common stock were treated as a discount to the value of the note payable in accordance with FASB ASC 835-30-25, *Recognition* and are being accreted over the term of the note payable for financial statement purposes. During the three and nine months ended September 30, 2012, $0 and $65,560 and $1,418 and $1,418 for the three and nine months ended September 30, 2011 of interest was accreted on the notes payable.

On February 8, 2012, February 27, 2012, and April 10, 2012, $100,000, $50,000, and $25,000 respectively, of the notes payable was repaid.

On April 26, 2012, the remaining balance of the notes payable of $175,000 and accrued interest of $25,000 was converted into 571,428 shares of the Company's common stock and warrants to purchase 285,714 shares of the Company's common stock.

NOTE 5 - INCOME TAXES

Income tax expense was $0 for the three and nine months ended September 30, 2012 and 2011.

As of January 1, 2012, the Company had no unrecognized tax benefits, and accordingly, the Company did not recognize interest or penalties during 2012 related to unrecognized tax benefits. There has been no change in unrecognized tax benefits during the nine months ended September 30, 2012, and there was no accrual for uncertain tax positions as of September 30, 2012. Tax years from 2008 through 2011 remain subject to examination by major tax jurisdictions.

There is no income tax benefit for the losses for the nine months ended September 30, 2012 and 2011, since management has determined that the realization of the net tax deferred asset is not assured and has created a valuation allowance for the entire amount of such benefits.

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NOTE 6 – STOCKHOLDERS' EQUITY

In February 2008, the Company issued 19,000,000 founders shares at $.001 per share or $19,000.

In February 2008, the Company commenced a private placement of up to 7 million units at a price of $.035 per unit to accredited investors. One unit consisted of one share of the Company's common stock and two warrants. Each warrant entitles the holder to purchase one additional share of common stock at a price of $.04 per share and is exercisable for a three year period. From February through June 2008, 7,142,858 units were sold, raising $250,000 in proceeds and resulting in 14,285,716 warrants being issued.

On May 8, 2008, 500,000 options were exercised, which raised proceeds $20,000. During the three months ended September 30, 2008, 1,750,000 options were exercised, which raised proceeds of $70,000.

On May 27, 2008, the Company commenced a private placement of up to 6 million units at a price of $.035 per unit to accredited investors. One unit consisted of one share of the Company's common stock and one warrant. Ten of these warrants entitle the holder to purchase one additional share of common stock at a price of $.75 per share and are exercisable for a three year period. During the three months ended June 30, 2008, 6,142,858 units were sold with warrants exercisable at a price of $.75 per share, raising $215,000 in proceeds and resulting in 614,286 warrants being issued. During the three months ended September 30, 2008, 500,000 units were sold with warrants at a price of $.75, raising $17,500 and resulting in 50,000 warrants being issued.

During the three months ended September 30, 2008, the Company sold 2,560 shares, which raised proceeds of $2,560. The Company filed a registration statement to register 2,560 shares of the Company which became effective on September 3, 2008.

During the three months ended September 30, 2008, 250,000 warrants were exercised which raised proceeds of $10,000.

During the three months ended March 31, 2009, 1 million options were exercised which raised proceeds of $40,000.

During the three months ended March 31, 2009, the Company issued 100,000 shares of common stock which were valued at the fair market value of $200,000 for consulting services.

During the three months ended June 30, 2009, the Company sold 400,000 shares which raised proceeds of $348,000, net of commissions of $52,000.

During the three months ended September 30, 2009, 1 million warrants and 1.5 million options were exercised which raised proceeds of $100,000. In addition, the Company sold 100,000 shares which raised proceeds of $87,000, net of commissions of $13,000.

On October 9, 2009, the Company was listed on the German stock exchange. In connection with the listing, the Company issued 1,080,427 shares of common stock under a consulting agreement. These shares were valued at the fair market value of $1,080,427.

NOTE 6 – STOCKHOLDERS' EQUITY (Continued)

On October 21, 2009, the Company sold 100,000 shares to an investor which raised proceeds of $100,000.

On October 22, 2009, an investor exercised 1,000,000 warrants which raised proceeds of $40,000.

On December 2, 2009, two investors exercised 500,000 warrants each (total of 1,000,000 warrants) which raised total proceeds of $40,000.

On December 10, 2009 and December 31, 2009 an investor exercised 250,000 options and 1,000,000 warrants, respectively, which raised total proceeds of $50,000.

On January 5, 2010 an investor exercised 1,000,000 options which raised proceeds of $40,000.

On February 22, 2010 an investor exercised 892,858 warrants which raised proceeds of $35,714.

On March 5, 2010 an investor exercised 500,000 warrants which raised proceeds of $20,000.

On March 8, 2010 an investor exercised 500,000 warrants which raised proceeds of $20,000.

On April 13, 2010 an investor exercised 1,000,000 warrants which raised proceeds of $40,000.

On April 16, 2010 an investor exercised 1,500,000 warrants which raised proceeds of $60,000.

In August 2010, the Company retired 400,000 non-employee options with exercise prices of $.04 in exchange for the issuance of 65,000 shares to the option holders. No additional compensation expense was recorded as the fair value of the options exceeded the value of the stock that was issued.

On August 17, 2010, the Company sold 2,000,000 shares of common stock to investors which raised proceeds of $400,000.

During November and December 2010, the Company sold 7,625,000 shares of common stock to investors which raised proceeds of $1,525,000.

On November 19, 2010, the Company issued 111,111 shares of common stock which were valued at the fair market value of $100,000, for consulting services.

On December 2, 2010, an investor exercised 3 million options which raised proceeds of $120,000.

In December 2010, two investors exercised a total of 2.5 million warrants which raised proceeds of $100,000.

During the three months ended June 30, 2011, the Company issued 100,000 shares of common stock which were valued at the fair market value of $49,000, for consulting services.

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NOTE 6 – STOCKHOLDERS' EQUITY (Continued)

In December 2011, the Company commenced a private placement of up to $5,000,000 consisting of up to 12,500,000 shares of the Company's common stock and warrants to purchase up to 6,250,000 shares of the Company's common stock. The shares and warrants were sold in units with each unit comprised of two shares and one warrant at a purchase price of $.80 per unit. During December 2011, the Company sold 625,000 units and raised $500,000. On January 11, 2012, the Company amended the Securities Purchase Agreement dated December 1, 2011, by reducing the price of one unit from $.80 to $.70. This increased the number of units to be sold from 6,250,000 units to 7,142,858 units. It also required the Company to issue to one investor an additional 89,286 units, consisting of 178,572 shares common stock and warrants to purchase an additional 89,286 shares of common stock. During the three months ended March 31, 2012, the Company issued an additional 3,922,356 units and raised $2,717,650, net of stock issuance costs of $28,000.

On April 5, 2012, the Company commenced a private placement of up to $3,500,000 consisting of up to 10,000,000 shares of the Company's common stock and warrants to purchase up to 5,000,000 shares of the Company's common stock at an exercise price of $.50 per share. The shares and warrants were sold in units with each unit comprised of two shares and one warrant at a purchase price of $.70 per unit. In accordance with the terms of the offering documents, the offering amount was increased to $4 million. From April 5, 2012 to June 30, 2012, the Company sold 6,201,831 units and raised $4,341,282.

On April 2, 2012, the Company entered into a settlement agreement with a former consultant of the Company. In connection with the settlement, the Company made a settlement payment to the consultant of $30,000 and issued the consultant 350,000 shares of the Company's common stock, which were valued at $297,500, fair value, or $.85 per share.

On April 10, 2012, a company owned by the Secretary and his wife exercised 250,000 options which raised proceeds of $10,000.

On May 2, 2012 the Company entered into a securities purchase agreement with a non-U.S. person, pursuant to which the Company issued and sold 187,500 units at a purchase price of $0.80 per unit, in consideration of gross proceeds of $150,000. Each unit consisted of: (i) two shares of the Company's common stock, (ii) a warrant to purchase one share of the Company's common stock at an exercise price of $0.50 per share for a term of two years, and (iii) a warrant to purchase one half share of the Company's common stock at an exercise price of $1.00 per share for a term of three years. Pursuant to the securities purchase agreement, the purchaser also agreed to purchase an additional $850,000 of units by November 1, 2012. The Company received $750,000 as of September 30, 2012 under this agreement. The Company expects to receive the remaining $250,000 in November 2012.

On May 21, 2012, the Company issued five consultants an aggregate of 1,363,185 shares of the Company's common stock for services, which were valued in the aggregate at $3,312,537, fair value or $2.43 per share, which was the stock price on the day of issuance.

On May 25, 2012, an investor exercised 350,000 options which raised proceeds of $14,000.

NOTE 7 – STOCK OPTIONS AND WARRANTS

During 2008, the Board of Directors ("Board") of the Company adopted an Equity Incentive Plan ("Plan"). Under the Plan, the Company is authorized to grant options to purchase up to 25,000,000 shares of common stock to any officer, other employee or director of, or any consultant or other independent contractor who provides services to the Company. The Plan is intended to permit stock options granted to employees under the Plan to qualify as incentive stock options under Section 422 of the Internal Revenue Code of 1986, as amended ("Incentive Stock Options"). All options granted under the Plan, which are not intended to qualify as Incentive Stock Options are deemed to be non-qualified options ("Non-Statutory Stock Options"). As of September 30, 2012, 14,215,000 options have been issued and are unexercised, and 1,185,000 options that are available to be issued under the Plan. Of the 14,215,000 options that have been issued and are unexercised, 11,605,000 options were granted to employees or persons who later became employees and 2,610,000 options were granted to non-employees.

The Plan is administered by the Board, which determines the persons to whom awards will be granted, the number of awards to be granted, and the specific terms of each grant, including the vesting thereof, subject to the terms of the Plan.

In connection with Incentive Stock Options, the exercise price of each option may not be less than 100% of the fair market value of the common stock on the date of the grant (or 110% of the fair market value in the case of a grantee holding more than 10% of the outstanding stock of the Company).

Volatility in all instances presented is the Company's estimate of volatility that is based on the volatility of other public companies that are in closely related industries to the Company.

During 2008, the Company issued the Secretary of the Company options to purchase 500,000 shares of the Company's common stock at $.04 per share which were valued at $8,825 and expensed immediately. The Company uses the Black-Scholes option pricing model to calculate the grant-date fair value of the options, with the following assumptions: no dividend yield, expected volatility of 51.8%, risk free interest rate of 2.5%, and expected option life of 5 years. The options expire five years from the date of issuance.

During 2008, the Company entered into an employment agreement with its President and Chief Executive Officer, whereby, the President and Chief Executive Officer was issued options to purchase 1,000,000 shares of the Company's common stock at $.04 per share which were valued at $71,871 and expensed immediately. The Company uses the Black-Scholes option pricing model to calculate the grant-date fair value of the options, with the following assumptions: no dividend yield, expected volatility of 51.8%, risk free interest rate of 3.3%, and expected option life of 5 years. The options expire five years from the date of issuance.

During 2008, the Company entered into an employment agreement with its Director of Corporate Development whereby the Director of Corporate Development was issued options to purchase 2,750,000 shares of the Company's common stock at $.04 per share which were valued at $197,645 and expensed immediately. The Company uses the Black-Scholes option pricing model to calculate the grant-date fair value of the options, with the following assumptions: no dividend yield, expected volatility of 51.8%, risk free interest rate of 3.3% and expected option life of 5 years. The options expire five years from the date of issuance.

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Notes to Financial Statements

NOTE 7 – STOCK OPTIONS AND WARRANTS (Continued)

During 2008, the Company entered into an agreement with a member of the Company's Board of Directors whereby the member of the Board of Directors was issued options to purchase 1,250,000 shares of the Company's common stock at $.04 per share which were valued at $89,838, fair value, and expensed immediately. The Company uses the Black-Scholes option pricing model to calculate the grant-date fair value of the options, with the following assumptions: no dividend yield, expected volatility of 51.8%, risk free interest rate of 3.3%, and expected option life of 5 years. The options expire five years from the date of issuance.

On June 23, 2008, a member of the Board of Directors was issued 500,000 shares of the Company's common stock at $.04 per share, which were valued at $36,113, fair value, and expensed immediately. The Company uses the Black-Scholes option pricing model to calculate the grant-date fair value of the options, with the following assumptions: no dividend yield, expected volatility of 51.8%, risk free interest rate of 3.7% and expected option life of 5 years. The options expire five years from the date of issuance.

On March 12, 2010 the Company entered into a three year employment agreement with the Senior Vice President of Marketing and Licensing for €150,000 annually. The agreement also includes an option to purchase 2 million shares of the Company's common stock at $1.00 per share. These options were valued at $1,829,756, fair value. The Company uses the Black-Scholes option pricing model to calculate the grant-date fair value of the options, with the following assumptions: no dividend yield, expected volatility of 41.6%, risk free interest rate of 2.4%, and expected option life of five years. The options expire five years from the date of issuance. Options granted under the agreements are expensed when the related service is provided. In December 2010, this employment agreement was terminated, the options were terminated and any expense relative to the options that was previously recorded was reversed.

During November 2010, the Company issued two directors options to purchase an aggregate of 600,000 shares of the Company's common stock at $.90 per share. These options have been valued at $5,207, fair value. The Company uses the Black-Scholes option pricing model to calculate the grant-date fair value of the options, with the following assumptions: no dividend yield, expected volatility of 40.8%, risk free interest rate of 1.5%, and expected option life of five years. The options expire five years from the date of issuance. Options granted are expensed when the service is provided.

Virtual Piggy, Inc.
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Notes to Financial Statements

NOTE 7 – STOCK OPTIONS AND WARRANTS (Continued)

On January 27, 2012, the Company issued an employee an option to purchase 30,000 shares of the Company's common stock at $.52 per share. These options have been valued at $3,718, fair value. The Company uses the Black-Scholes option pricing model to calculate the grant-date fair value of the options, with the following assumptions: no dividend yield, expected volatility of 25.4%, risk free interest rate of 0.8% and expected option life of five years. The options expire five years from the date of issuance. Options granted were expensed over the three year vesting term.

On February 28, 2012, the Company issued an employee an option to purchase 25,000 shares of the Company's common stock at $.58 per share. These options have been valued at $3,120, fair value. The Company uses the Black-Scholes option pricing model to calculate the grant-date fair value of the options, with the following assumptions: no dividend yield, expected volatility of 25.0%, risk free interest rate of .8% and expected option life of five years. The options expire five years from the date of issuance. Options granted are expensed over the three year vesting term.

On March 2, 2012, the Company issued an employee an option to purchase 250,000 shares of the Company's common stock at $.58 per share. These options have been valued at $33,975, fair value. The Company uses the Black-Scholes option pricing model to calculate the grant-date fair value of the options, with the following assumptions: no dividend yield, expected volatility of 25.9%, risk free interest rate of .9% and expected option life of five years. The options expire five years from the date of issuance. Options granted are expensed immediately.

On March 5, 2012, the Company issued an employee an option to purchase 25,000 shares of the Company's common stock at $.58 per share. These options have been valued at $2,680, fair value. The Company uses the Black-Scholes option pricing model to calculate the grant-date fair value of the options, with the following assumptions: no dividend yield, expected volatility of 25.0%, risk free interest rate of .9% and expected option life of five years. The options expire five years from the date of issuance. Options granted are expensed over the three year vesting term.

On March 31, 2012, the Company issued five employees, options to purchase 4,010,000 shares in the aggregate of the Company's common stock at $.65 per share. These options have been valued at $759,810, fair value. The Company uses the Black-Scholes option pricing model to calculate the grant-date fair value of the options, with the following assumptions: no dividend yield, expected volatility of 31.2%, risk free interest rate of 1.04% and expected option life of five years. The options expire five years from the date of issuance. Options granted are expensed over the three year vesting term.

In April 2012, the Company issued six employees options to purchase an aggregate of 80,000 shares of the Company's common stock at exercise prices ranging from $.65 to $.97 per share. These options were valued at $17,310 fair value. The Company uses the Black-Scholes option pricing model to calculate the grant-date fair value of the options, with the following assumptions: no dividend yield, expected volatility of 30.2% to 33.4%, risk free interest rate of .82% to 1.04% and expected option life of five years. The options expire five years from the date of issuance. Options granted will be expensed over the three year vesting term.

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Notes to Financial Statements

NOTE 7 – STOCK OPTIONS AND WARRANTS (Continued)

In June 2012, the Company issued three employees and one board member options to purchase an aggregate of 470,000 shares of the Company's common stock at exercise prices ranging from $1.53 to $1.82 per share. These options were valued at $217,293, fair value. The Company uses the Black-Scholes option pricing model to calculate the grant-date fair value of the options, with the following assumptions: no dividend yield, expected volatility of 30.3% to 35.5%, risk free interest rate of .68% to .72% and expected option life of five years. The options expire five years from the date of issuance. Options granted will be expensed over the three year vesting term or immediately if there is no vesting term.

In July 2012, the Company issued one employee and one board member options to purchase an aggregate of 115,000 shares of the Company's common stock at exercise prices ranging from $1.23 to $1.55 per share. These options were valued at $45,866, fair value. The Company uses the Black-Scholes option pricing model to calculate the grant-date fair value of the options, with the following assumptions: no dividend yield, expected volatility of 29.3% to 32.9%, risk free interest rate of .61% to .64% and expected option life of five years. The options expire five years from the date of issuance. Options granted will be expensed over the three year vesting term.

In August 2012, the Company issued six employees options to purchase an aggregate of 365,000 shares of the Company's common stock at exercise prices ranging from $1.26 to $1.43 per share. These options were valued at $118,372, fair value. The Company uses the Black-Scholes option pricing model to calculate the grant-date fair value of the options, with the following assumptions: no dividend yield, expected volatility of 23.5% to 29.1%, risk free interest rate of .65% to .69% and expected option life of five years. The options expire five years from the date of issuance. Options granted will be expensed over the three year vesting term.

In September 2012, the Company issued one employee options to purchase 75,000 shares of the Company's common stock at an exercise price of $1.54 per share. These options were valued at $26,303, fair value. The Company uses the Black-Scholes option pricing model to calculate the grant-date fair value of the options, with the following assumptions: no dividend yield, expected volatility of 24.5%, risk free interest rate of .62% to and expected option life of five years. The options expire five years from the date of issuance. Options granted will be expensed over the three year vesting term or immediately if there is no vesting term.

Cumulatively and for the three and nine months ended September 30, 2012, the Company expensed $666,537, $81,588 and $274,757 and for the three and nine months ended September 30, 2011, the Company expensed $0 and $16,733 relative to employee options/warrants granted. As of September 30, 2012, there was $1,005,381 of unrecognized compensation expense related to employee non-vested market-based share awards.

Virtual Piggy, Inc.
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Notes to Financial Statements

NOTE 7 – STOCK OPTIONS AND WARRANTS (Continued)

A summary of stock option/warrant transactions for employees from February 11, 2008 (date of inception) to September 30, 2012 is as follows:

	Option/Warrants Shares	Exercise Price	Weighted Average Exercise Price
Outstanding, February 11, 2008 (Date of Inception)	-	$ -	$ -
Granted	6,000,000	0.04	0.04
Exercised	(1,750,000)	0.04	0.04
Expired	-	-	-
Outstanding, December 31, 2008	4,250,000	$ 0.04	$ 0.04
Granted	-	-	-
Exercised	(2,750,000)	0.04	0.04
Expired	-	-	-
Outstanding, December 31, 2009	1,500,000	$ 0.04	$ 0.04
Granted	2,600,000	.90 to 1.00	0.83
Exercised	(1,000,000)	0.04	(0.04)
Terminated	(2,000,000)	1.00	(0.65)
Outstanding, December 31, 2010	1,100,000	$ .04 to $.90	$ 0.51
Granted	625,000	0.60	0.04
Reclassified from non-employee	7,742,858	.04 to .90	0.09
Exercised	-	-	-
Expired	-	-	-
Outstanding, December 31, 2011	9,467,858	$ .04 to $.90	$ 0.19
Granted	5,445,000	.50 to 1.82	$ 0.30
Issued under Private Placement	500,786	0.50	0.02
Reclassified from non-employee	810,000	0.60 to .65	-
Exercised	(250,000)	0.04	-
Expired	-	-	-
Outstanding, September 30, 2012	15,973,644	$ .04 to $1.82	$ 0.43
Exercisable, September 30, 2012	10,728,644	$ .04 to $1.67	$ 0.26
Weighted Average Remaining Life, Exercisable, September 30, 2012 (years)	1.4		

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Notes to Financial Statements

NOTE 7 – STOCK OPTIONS AND WARRANTS (Continued)

On August 18, 2009, options to purchase 100,000 shares of the Company's common stock at $2.30 were issued to a consultant, which were valued at $30,689, fair value. Another consultant also received 25,000 options on August 18, 2009, which were valued at $7,672, fair value. The Company uses the Black-Scholes option pricing model to calculate the grant-date fair value of the options, with the following assumptions: no dividend yield, expected volatility of 58.3%, risk free interest rate of 2.4%, and expected option life of 5 years. The options expire five years from the date of issuance. Options granted under the agreements were expensed when the related service or product was provided.

On August 20, 2010, the Company issued the Chief Financial Officer an option to purchase 250,000 shares of the Company's common stock at $.75 per share. These options have been valued at $2,012, fair value. The Company uses the Black-Scholes option pricing model to calculate the grant-date fair value of the options, with the following assumptions: no dividend yield, expected volatility of 36.7%, risk free interest rate of 1.5% and expected option life of five years. The options expire five years from the date of issuance. Options granted were expensed immediately.

On September 13, 2010, the Company issued the Chief Executive Officer an option to purchase 250,000 shares of the Company's common stock at $.75 per share. These options have been valued at $1,676, fair value. The Company uses the Black-Scholes option pricing model to calculate the grant-date fair value of the options, with the following assumptions: no dividend yield, expected volatility of 35.2%, risk free interest rate of 1.5% and expected option life of five years. The options expire five years from the date of issuance. Options granted were expensed immediately.

On September 13, 2010, the Company issued a consultant an option to purchase 100,000 shares of the Company's common stock at $.75 per share. These options have been valued at $670, fair value. The Company uses the Black-Scholes option pricing model to calculate the grant-date fair value of the options, with the following assumptions: no dividend yield, expected volatility of 35.2%, risk free interest rate of 1.5% and expected option life of five years. The options expire five years from the date of issuance. Options granted were expensed immediately.

During October and November 2010, the Company issued various consultant option to purchase an aggregate of 1,020,000 shares of the Company's common stock at $.75, $.78 and $.90 per share. These options have been valued at $7,397, fair value. The Company uses the Black-Scholes option pricing model to calculate the grant-date fair value of the options, with the following assumptions: no dividend yield, expected volatility of 34.2% to 40.8%, risk free interest rate of 1.1% to 1.5% and expected option life of five years. The options expire five years from the date of issuance. Options granted were expensed when the service was provided.

On January 24, 2011, the Company issued four consultants options to purchase an aggregate of 230,000 shares of the Company's common stock at $1.00 per share. These options have been valued at $46,019, fair value. The Company uses the Black-Scholes option pricing model to calculate the grant-date fair value of the options, with the following assumptions: no dividend yield, expected volatility of 33.5%, risk free interest rate of 2.03% and expected option life of five years. The options expire five years from the date of issuance. Options granted were expensed when the service was provided.

NOTE 7 – STOCK OPTIONS AND WARRANTS (Continued)

On July 1, 2011, the Company issued a consultant an option to purchase 200,000 shares of the Company's common stock at $.91 per share. These options have been valued at $19,234, fair value. The Company uses the Black-Scholes option pricing model to calculate the grant-date fair value of the options, with the following assumptions: no dividend yield, expected volatility of 39.8%, risk free interest rate of 1.80% and expected option life of five years. The options expire five years from the date of issuance. Options granted were expensed immediately.

On July 22, 2011, the Company issued a consultant an option to purchase 25,000 shares of the Company's common stock at $.60 per share. These options have been valued at $4,150, fair value. The Company uses the Black-Scholes option pricing model to calculate the grant-date fair value of the options, with the following assumptions: no dividend yield, expected volatility of 38.0%, risk free interest rate of 1.53% and expected option life of five years. The options expire five years from the date of issuance. Options granted were expensed immediately.

On August 2, 2011, the Company issued a consultant an option to purchase 20,000 shares of the Company's common stock at $.60 per share. These options have been valued at $3,803, fair value. The Company uses the Black-Scholes option pricing model to calculate the grant-date fair value of the options, with the following assumptions: no dividend yield, expected volatility of 39.6%, risk free interest rate of 1.23% and expected option life of five years. The options expire five years from the date of issuance. Options granted are being expensed as the service is provided.

On August 15, 2011, the Company issued a consultant an option to purchase 150,000 shares of the Company's common stock at $.75 per share. These options have been valued at $27,273, fair value. The Company uses the Black-Scholes option pricing model to calculate the grant-date fair value of the options, with the following assumptions: no dividend yield, expected volatility of 55.8%, risk free interest rate of .99% and expected option life of five years. The options expire five years from the date of issuance. Options granted were expensed immediately.

On January 2, 2012, the Company issued a consultant an option to purchase 250,000 shares of the Company's common stock at $.50 per share. These options have been valued at $51,692 fair value. The Company uses the Black-Scholes option pricing model to calculate the grant-date fair value of the options, with the following assumptions: no dividend yield, expected volatility of 29.2%, risk free interest rate of 0.9% and expected option life of five years. The options expire five years from the date of issuance. Options granted are expensed over the three year vesting term.

On January 17, 2012, the Company issued a consultant an option to purchase 200,000 shares of the Company's common stock at $.50 per share. These options have been valued at $31,437, fair value. The Company uses the Black-Scholes option pricing model to calculate the grant-date fair value of the options, with the following assumptions: no dividend yield, expected volatility of 28.0%, risk free interest rate of 0.8% and expected option life of five years. The options expire five years from the date of issuance. Options granted are expensed immediately.

NOTE 7 – STOCK OPTIONS AND WARRANTS (Continued)

On March 31, 2012, the Company issued two consultants options to purchase 100,000 shares in the aggregate of the Company's common stock at $.65 per share. These options have been valued at $18,947, fair value. The Company uses the Black-Scholes option pricing model to calculate the grant-date fair value of the options, with the following assumptions: no dividend yield, expected volatility of 31.2%, risk free interest rate of 1.04% and expected option life of five years. The options expire five years from the date of issuance. Options granted are expensed immediately.

On April 1, 2012, the Company issued a company owned by the former manager of corporate development an option to purchase 250,000 shares of the Company's common stock at $.70 per share pursuant to an agreement that also required a cash payment of $150,000. These options have been valued at $43,028, fair value. The Company uses the Black-Scholes option pricing model to calculate the grant-date fair value of the options, with the following assumptions: no dividend yield, expected volatility 31.2%, risk free interest rate of 1.04% and expected option life of five years. The options expire five years from the date of issuance. Options granted are being expensed through May 31, 2013, the term of the agreement.

In August 2012, the Company issued two consultants options to purchase an aggregate of 400,000 shares of the Company's common stock at exercise prices ranging from $.35 to $1.11 per share. These options were valued at $321,221, fair value. The Company uses the Black-Scholes option pricing model to calculate the grant-date fair value of the options, with the following assumptions: no dividend yield, expected volatility of 27.1% to 30.5%, risk free interest rate of .27% to .67% and expected option lives of from two to five years. The options expire between two and five years from the date of issuance. Options granted will be expensed over the three year vesting term or over the term of the agreement, if there is no vesting term.

In September 2012, the Company issued a consultant options to purchase 100,000 shares of the Company's common stock at an exercise price of $.75 per share. These options were valued at $81,697, fair value. The Company uses the Black-Scholes option pricing model to calculate the grant-date fair value of the options, with the following assumptions: no dividend yield, expected volatility of 25.6%, risk free interest rate of .27% and expected option life of two years. The options expire two years from the date of issuance. Options granted will be expensed over the three year vesting term or over the term of the agreement, if there is no vesting term.

Cumulatively and for the three and nine months ended September 30, 2012, the Company expensed $902,712, $142,086 and $203,593 and for the three and nine months ended September 30, 2011, the Company expensed $52,672 and $220,812 relative to non-employee options/warrants granted. As of September 30, 2012, there was $294,957 of unrecognized compensation expense related to non-vested market-based share awards.

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NOTE 7 – STOCK OPTIONS AND WARRANTS (Continued)

The following table summarizes non-employee stock option/warrant of the Company from February 11, 2008 (date of inception) to September 30, 2012 as follows:

	Option/Warrant Shares	Exercise Price	Weighted Average Exercise Price
Outstanding, February 11, 2008 (Date of Inception	-	$ -	$ -
Granted	23,450,002	.04 to .75	0.07
Exercised	(750,000)	0.04	0.04
Expired	-	-	-
Outstanding, December 31, 2008	22,700,002	$ .04 to $.75	$ 0.07
Granted	125,000	2.30	0.01
Exercised	(4,000,000)	0.04	0.04
Expired	-	-	-
Outstanding, December 31, 2009	18,825,002	$ 0.04 to $2.30	$ 0.09
Granted	1,620,000	.75 to .90	0.13
Exercised	(9,892,858)	0.04	0.04
Retired	(400,000)	0.04	0.04
Outstanding, December 31, 2010	10,152,144	$ 0.04 to $2.30	$ 0.25
Granted	775,000	.50 to 1.00	$ 0.06
Reclassified from employee	(7,742,858)	.04 to .90	0.09
Exercised	-	-	-
Expired	-	-	-
Outstanding, December 31, 2011	3,184,286	$ 0.04 to $2.30	$ 0.76
Granted	1,300,000	0.65	0.08
Issued under Private Placement	11,592,152	$ 0.50 to 1.00	0.44
Reclassified to employee	(810,000)	0.60 to .65	-
Exercised	(350,000)	0.04	-
Expired	-	-	-
Outstanding, September 30, 2012	14,916,438	$ 0.04 to $2.30	$ 0.59
Exercisable, September 30, 2012	14,816,438	$ 0.04 to $2.30	$ 0.58
Weighted Average Remaining Life, Exercisable,September 30, 2012 (years)	1.8		

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NOTE 8 – CONTINGENCIES

In August 2012, the Company entered into two consulting agreements, pursuant to which the Company is obligated to issue the consultants options to purchase an aggregate of 6,275,000 shares of the Company's common stock at an exercise price of $.75 per share upon the achievement of certain performance-based milestones. The options expire two years from the date of issuance. Both agreements expire December 20, 2012. As of the date of this report, none of these options have been issued.

In September 2012, the Company entered into two consulting agreements, pursuant to which the Company is obligated to issue the consultants options to purchase an aggregate of 3,440,000 shares of the Company's common stock at an exercise price of $.75 or the actual price per share upon the achievement of certain performance-based milestones. The options expire two years from the date of issuance. These agreements expire November 15, 2012 and December 29, 2012. As of the date of this report, none of these options have been issued.

In September 2012, the Company entered into two consulting agreements, pursuant to which the Company is obligated to issue the consultants options to purchase an aggregate of 825,000 shares of the Company's common stock at an exercise price of equal to the share price on the date of issuance upon the achievement of certain performance-based milestones. The options expire two years from the date of issuance. Both agreements expire and November 19, 2012 and December 31, 2012. As of the date of this report, none of these options have been issued.

NOTE 9 - OPERATING LEASES

For the three and nine months ended September 30, 2012, total rent expense under leases amounted to $54,640 and $113,389 and for the three and nine months ended September 30, 2011 total rent expense under leases amounted to $8,802 and $26,141. At September 30, 2012, the Company was obligated under various non-cancelable operating lease arrangements for property as follows:

2012	$	20,445
2013		69,570
2014		66,970
2015		28,445
	$	185,430

NOTE 10 – RELATED PARTY TRANSACTIONS

From inception through December 1, 2010, the Company has utilized offices leased by affiliates of certain of the Company's board members without charge.

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NOTE 10 – RELATED PARTY TRANSACTIONS (Continued)

During the nine months ended September 30, 2012 and 2011, the former manager of corporate development of the Company advanced expenses on behalf of the Company in connection with research and implementation of the Company’s business plans. Expenses totaling $32,224 and $58,634 were incurred and reimbursed during the nine months ended September 30, 2012 and 2011. In conjunction with a consulting agreement dated April 1, 2012, the former manager of corporate development also received $150,000.

During the nine months ended September 30, 2012 and 2011, a marketing company owned by the Company's Secretary and his spouse was paid $14,560 and $0.

During the nine months ended September 30, 2012 and 2011, the certified public accounting firm owned by the Company's Chief Financial Officer was paid $93,400 and $58,750 for accounting services.

NOTE 11 – SUBSEQUENT EVENTS

On October 15, 2012, the Company entered into a merchant agreement pursuant to which, the Company issued warrants to purchase 50,000 shares of the Company’s common stock at an exercise price of $1.14. These options were valued at $5,381, fair value. The Company uses the Black-Scholes option pricing model to calculate the grant-date fair value of the options, with the following assumptions: no dividend yield, expected volatility of 23.5%, risk free interest rate of .19% and expected option life of one year. The options expire one year from the date of issuance. Options granted will be expensed over the three year vesting term or immediately if there is no vesting term. This merchant agreement also provides that the Company shall be obligated to issue the merchant a one year warrant to purchase up to 50,000 shares of the Company’s common stock at an exercise price equal to $2.00, be obligated to, if the following occur:

1. The Company is integrated as a payment option on e-commerce sites operated by the merchant or its subsidiaries
2. The merchant affects an email blast with Company sign up offer to all of the merchants customers
3. The parties shall engage in a co-marketed social media campaign, which shall include but not be limited to a mom blog campaign

On October 16, 2012, the Company issued options to purchase an aggregate of 75,000 shares of the Company’s common stock at an exercise price of $1.35 per share to an employee of the Company. These options were valued at $23,263, fair value. The Company uses the Black-Scholes option pricing model to calculate the grant-date fair value of the options, with the following assumptions: no dividend yield, expected volatility of 24.5%, risk free interest rate of .70% and expected option life of five years. The options expire five years from the date of issuance. Options granted will be expensed over the three year vesting term or immediately if there is no vesting term.

NOTE 11 – SUBSEQUENT EVENTS (Continued)

On October 29, 2012, the Company entered into a consulting agreement, pursuant to which the Company is obligated to issue options to purchase up to 15,000 shares of the Company's common stock upon the achievement of certain performance-based milestones at an exercise price equal to the share price on the date of issuance. The options expire two years from the date of issuance. The agreement expires November 21, 2012. The consultant is also eligible to receive an additional $10,000 bonus upon the achievement of certain additional milestones. As of the date of this report, none of these options have been issued.

On November 1, 2012, the Company issued options to purchase an aggregate of 10,000 shares of the Company’s common stock at an exercise price of $1.35 per share to an employee of the Company. These options were valued at $3,198 fair value. The Company uses the Black-Scholes option pricing model to calculate the grant-date fair value of the options, with the following assumptions: no dividend yield, expected volatility of 25.3%, risk free interest rate of .72% and expected option life of five years. The options expire five years from the date of issuance. Options granted will be expensed over the three year vesting term or immediately if there is no vesting term.

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

Cautionary Statements Regarding Forward-Looking Statements

This report contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). All statements other than statements of historical facts included or incorporated by reference in this quarterly report on Form 10-Q, including without limitation, statements regarding our future financial position, business strategy, budgets, projected revenues, projected costs and plans and objectives of management for future operations, are forward-looking statements. In addition, forward-looking statements generally can be identified by the use of forward-looking terminology such as "may," "will," "expects," "intends," "plans," "projects," "estimates," "anticipates," or "believes" or the negative thereof or any variation thereon or similar terminology or expressions.

We have based these forward-looking statements on our current expectations and projections about future events. These forward-looking statements are not guarantees and are subject to known and unknown risks, uncertainties and assumptions about us that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. Important factors that could cause actual results to differ materially from our expectations include, but are not limited to: our ability to raise additional capital, the absence of any operating history or revenue, our ability to attract and retain qualified personnel, our dependence on third party developers who we cannot control, our ability to develop and introduce a new service to the market in a timely manner, market acceptance of our services, our limited experience in a relatively new industry, the ability to successfully develop licensing programs and generate business, rapid technological change in relevant markets, unexpected network interruptions or security breaches, changes in demand for current and future intellectual property rights, legislative, regulatory and competitive developments, intense competition with larger companies, general economic conditions, as well as other factors set forth under the caption "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2011 filed with the Securities and Exchange Commission, and "Item 2 — Management's Discussions and Analysis of Financial Condition and Results of Operation" below.

All subsequent written and oral forward-looking statements attributable to us, or persons acting on our behalf, are expressly qualified in their entirety by the foregoing. Except as required by law, we assume no duty to update or revise our forward-looking statements.

Overview

We were incorporated in Delaware in February 2008. We are a development stage enterprise and have had limited business operations. For the period from inception through September 30, 2012, we have concentrated our efforts on developing a business plan which is designed to allow us to create our Platform. Those activities included, but were not limited to, securing initial capital in order to fund the development of a demonstration model for portions of the Platform and working capital, securing a board of directors, management personnel and consultants who we believe will assist us in developing the Platform and meet our business goals, conducting market research regarding the industry and our Platform, and other pre-marketing activities.

We are a technology development company that delivers an online security platform, which we refer to as the "Platform." The Platform is currently composed of three separate products and is designed for the management of the "Under 18" age group's online experience. Our overarching mission is to deliver solutions to meet the exponential growth of the "Under 18" age group transacting in the global online market. Our Platform is designed to enable online businesses to interact with "tweens" or children between the ages of 8-14 in compliance with the Children's Online Privacy Protection Act ("COPPA"), and other similar international children's privacy laws.

Our Platform currently consists of three separate security management products targeted at the Under 18 market:

- Virtual Piggy;
- ParentMatch and ParentPlayback; and
- Age Verification Service

Our Virtual Piggy product, which has been launched in the market, enables online businesses to interact and transact with the "Under 18" market in a manner consistent with "COPPA" and other similar international children's privacy laws. Virtual Piggy provides an online payment profile that allows parents to set up, monitor and control their children's online spending. Parents can establish how much a child can spend in a single transaction, or over time, and also control the merchants with which the child can transact business. Parents also have the ability to set up approval rules and notification methods.

Our ParentMatch and ParentPlayback products are currently under development and are designed to provide the parent/guardian with a higher level of control than is currently provided by 'nanny' type services. In addition, the web service ID will follow the child whenever he or she is on a computer, unlike traditional controls that are resident on a PC by PC basis.

Age Check will be a persistent software system and service designed to provide a verification mechanism for the age of a person online. The system and service will provide a rapid secure checking mechanism to determine a person's age. The main purpose of this system and service is to determine whether setup information supplied by a person to gain access to a social network or other online site is correct.

Our Plan of Operation

A phased approach to the introduction of our Platform is planned.

As of the date of this report, we have completed the design and development of Virtual Piggy**.** We announced the release of Virtual Piggy in January 2011 and commenced marketing and distribution efforts in February 2011. We released our Virtual Piggy mobile application on the iOS platform in early 2012. We are in discussions with several global merchants and we plan a market introduction of Virtual Piggy into Europe by early 2013. The Virtual Piggy service is running live and processing live transactions with real merchants and consumers.

We are planning the release of ParentMatch and Parent Playback in 2013-2014 to line up with our international marketing campaign of Virtual Piggy. These technologies are currently in the design and prototyping phases, but we expect that they will be developed and released as a single application that provides both sets of functionality. Our plan is to market this technology to customers of our Virtual Piggy platform and the mobile market.

The last component of our solution is Age Verification Service. We expect to complete the design and development of Age Verification in 2014. This service is still in the design phase and, therefore, our commercialization strategy for this service is still in the preliminary stages and has yet to be finalized.

We continue to seek additional funds to help fund the operations and in particular the planned marketing programs. We have relocated our headquarters to the Los Angeles, California area where a significant number of our merchants have their global headquarters. We have retained a public relations agency in the Los Angeles area – Bender Helper Impact to help us with our public relations and consumer outreach campaigns.

As of November 7, 2012, we have approximately $2,365,000 in cash on hand. Our ability to execute our current plan is dependent on generating sufficient revenue to support our cost structure. We have raised approximately $8.4 million through private placements of our equity securities from December 31, 2011 through September 30, 2012. We are utilizing our cash to execute the marketing program for Virtual Piggy, to pay general and administrative expenses and commitments to continue development of our other products. The foregoing projected implementation plan was prepared by us in good faith based upon assumptions that we believe to be reasonable. No assurance can be given, however, regarding the attainability of the projections or the reliability of the assumptions on which they are based.

Strategic Outlook

We believe that the online gaming market and virtual goods market will continue to grow over the long term. Within the market, we intend to provide services to the online industry to allow them to transact with children in compliance with COPPA and similar international privacy laws. We believe that this particular opportunity is relatively untapped and expect to be a leading provider of online transactions for children.

Our current monetization model is to derive a percentage of all revenues generated by online merchants using the Virtual Piggy service. Merchants are billed at the end of each month for all transactions that have been processed by us on their behalf in the prior month. As the merchant base and consumer base grows, and as the trend to higher online spending levels continues, we expect to generate sufficient revenue to support operations. If sufficient revenues are not generated to sustain operations or additional funding cannot be obtained in the short term, the Company will need to reduce monthly expenditures to a level that will enable the Company to continue until such funds can be obtained.

Sustained spending on technology, our ability to raise additional financing, the continued growth of the online market, and compliance with regulatory and reporting requirements are all external conditions that may affect our ability to execute our business plan. The online payment industry is intensely competitive, and most participants have longer operating histories, significantly greater financial, technical, marketing, customer service, other resources, and greater name recognition. In addition, certain potential customers, particularly large organizations, may view our small size and limited financial resources as a negative even if they prefer our offering to those of our competitors.

Our primary strategic objective over the next 12-24 months, is to fully develop and implement our Platform and generate revenue that is sufficient to cover our operating expenses and support additional growth over the next several years. We plan to achieve this objective by completing the development and implementation of the Platform in a timely and efficient manner and supplementing the roll-out of each phase of our service with an extensive, layered marketing approach. As our service grows, we intend to hire additional information technology professionals to maintain our product offerings and develop new products to increase our market share.

We believe that our near-term success will depend particularly on our ability to develop customer awareness and confidence in our service. Since we have limited capital resources, we will need to closely manage our expenses and conserve our cash by continually monitoring any increase in expenses and reducing or eliminating unnecessary expenditures. Our prospects must be considered in light of the risks, expenses and difficulties encountered by companies at an early stage of development, particularly given that we operate in new and rapidly evolving markets, that we have limited financial resources, and face an uncertain economic environment. We may not be successful in addressing such risks and difficulties.

Results of Operations

Comparison of the Three Months Ended September 30, 2012 and 2011

The following discussion analyzes our results of operations for the three months ended September 30, 2012 and 2011. The following information should be considered together with our financial statements for such period and the accompanying notes thereto.

Net Loss for Three Months Ended September 30, 2012 and 2011

Lack of Revenue: We are a development stage enterprise and have not generated any significant revenue since our inception. For the three months September 30, 2012 and 2011, we generated revenues of $8 and $1,700, respectively. During such time, we devoted our efforts to integrating our platform with larger merchants, formalizing our business plan, and raising capital to commence our operations.

Expenses: The following amounts represent the most significant components of expenses for the three months ended September 30, 2012 and 2011:

a) General and Administrative Expenses: For the three months ended September 30, 2012, general and administrative expenses were $320,052, an increase of $263,565 from $56,487 for the three months ended September 30, 2011. The increase resulted primarily from increases in board fees of approximately $30,000, computer expenses of approximately $6,000, employee benefits of approximately $44,000, insurance of $6,000, meals and entertainment of approximately $14,000, moving expenses of approximately $11,000, office expenses of approximately $20,000, recruiting fees of approximately $73,000, rent of approximately $46,000, telephone expense of approximately $8,000 and other operating expenses of approximately $6,000. The increases resulted from continued expenses related to the development of our Platform and marketing the Virtual Piggy product.

b) Consulting Expense: For the three months ended September 30, 2012, consulting expenses were $242,116, a decrease of $55,301 from $297,417 for the three months ended September 30, 2011. This decrease resulted primarily from a reduction in payments to consultants related to marketing and infrastructure, as well as stock based compensation related to consultant agreements.

c) Marketing Expense: For the three months ended September 30, 2012, marketing expenses were $143,484, an increase of $135,884 from $7,600 for the three months ended September 30, 2011. This increase resulted primarily from an active marketing plan to generate consumers and merchants.

d) Payroll Expenses: During the three months ended September 30, 2012, we incurred $886,215 of compensation expenses as compared to $0 for the three months ended September 30, 2011. The increase resulted from the hiring of six new employees, costs of previously hired employees, as well as employee stock option grants during the three months ended September 30, 2012.

e) Professional Fees: During the three months ended September 30, 2012, we incurred $118,724 of professional fees as compared to $79,526 for the three months ended September 30, 2011, an increase of $39,198. The increase related primarily to legal and accounting fees associated with the private placements and option issuances.

f) Research and Development: During the three months ended September 30, 2012, we incurred $188,717 of research and development expenses as compared to $185,167 for the three months ended September 30, 2011, an increase of $3,550. The increase was due to the continued research and development of our products.

g) Travel: For the three months ended September 30, 2012, travel expenses were $121,344, an increase of $105,384 from $15,960 for the three months ended September 30, 2011. The expenses incurred were primarily associated with capital raising and marketing activities.

h) Interest expense: For the three months ended September 30, 2012, interest expense was $0 as compared to $1,418 for the three months ended September 30, 2011. Interest expense for the three months ended September 30, 2011 related to interim financing until the private placements could be completed.

Comparison of the Nine Months Ended September 30, 2012 and 2011

The following discussion analyzes our results of operations for the nine months ended September 30, 2012 and 2011. The following information should be considered together with our financial statements for such period and the accompanying notes thereto.

Net Loss for Nine Months Ended September 30, 2012 and 2011

Lack of Revenue: We are a development stage enterprise and have not generated any significant revenue since our inception. For the nine months September 30, 2012 and 2011, we generated revenues of $1,195 and $3,126, respectively. During such time, we devoted our efforts to integrating our platform with larger merchants, formalizing our business plan, and raising capital to commence our operations.

Expenses: The following amounts represent the most significant components of expenses for the nine months ended September 30, 2012 and 2011:

a) General and Administrative Expenses: For the nine months ended September 30, 2012, general and administrative expenses were $871,823, an increase of $676,983 from $194,840 for the nine months ended September 30, 2011. The increase resulted primarily from increases in board fees of approximately $85,000, computer expenses of approximately 11,000, depreciation and amortization of approximately $13,000, employee benefits of approximately $94,000, insurance expense of approximately $5,000, meals and entertainment of approximately $36,000, miscellaneous expenses of approximately $10,000, moving expenses of approximately $21,000, office expenses of approximately $44,000, recruiting fees of approximately $238,000, rent of approximately $87,000, telephone expenses of approximately $13,000 and website expense of approximately $40,000 and offset by a decrease in internet expense of approximately $20,000. The increases resulted from continued expenses related to the development of our Platform and marketing the Virtual Piggy product.

b) Consulting Expense: For the nine months ended September 30, 2012, consulting expenses were $4,422,241, an increase of $3,475,034 from $947,207 for the nine months ended September 30, 2011. This increase resulted primarily from the settlement of a dispute related to a marketing agreement and from an increase in payments to consultants related to marketing and infrastructure, as well as stock based compensation related to consultant agreements.

c) Marketing Expenses: During the nine months ended September 30, 2012, we incurred $463,109 of marketing expenses as compared to $104,186 for the nine months ended September 30, 2011, an increase of $358,923. This increase resulted primarily from an active marketing plan to generate consumers and merchants.

d) Payroll Expenses: During the nine months ended September 30, 2012, we incurred $1,740,952 of compensation expenses as compared to $16,733 for the nine months ended September 30, 2011, an increase of $1,724,219. The increase resulted from the hiring of twenty five employees, as well as employee stock option grants during the nine months ended September 30, 2012.

e) Professional Fees: During the nine months ended September 30, 2012, we incurred $361,036 of professional fees as compared to $265,583 for the nine months ended September 30, 2011, an increase of $95,453. The increase related primarily to legal and accounting fees associated with the private placements and option issuances.

f) Research and Development: During the nine months ended September 30, 2012, we incurred $356,096 of research and development expenses as compared to $407,738 for the nine months ended September 30, 2011, a decrease of $51,642. The decrease was due to the reversal of accrued expenses of approximately $70,000.

g) Travel: For the nine months ended September 30, 2012 travel expenses were $365,481, an increase of $239,808 from $125,673 for the nine months ended September 30, 2011. The expenses incurred were primarily associated with capital raising and marketing activities.

h) Interest: For the nine months ended September 30, 2012, interest expense was $90,560, an increase of $89,142 from $1,418 for the nine months ended September 30, 2011. Interest expense related to interim financing until the private placements could be completed.

Liquidity and Capital Resources

As of the date of this report, we had cash on hand of approximately $2,365,000.

Net cash used in operating activities for the nine months ended September 30, 2012 was $4,532,672, as compared to $1,660,538 for the nine months ended September 30, 2011, an increase of $2,872,134. The increase resulted primarily from expanded operations including marketing the Virtual Piggy product, hiring employees and establishing the infrastructure of the Company.

Net cash used in investing activities for the nine months ended September 30, 2012 was $292,363, as compared to $43,878 for the nine months ended September 30, 2011, an increase of $248,485. The increase resulted from the purchase of equipment and costs of patents and trademarks.

Net cash provided by financing activities was $7,757,932 for the nine months ended September 30, 2012, an increase of $7,607,932 from $150,000 for the nine months ended September 30, 2011. We repaid notes payable of $175,000 during the nine months ended September 30, 2012, and completed two private placements. Cash provided byfinancing activities during the nine months ended September 30, 2012 consisted of the issuance of shares of commons stock and warrants, net of issuance costs of $28,000, and the exercise of options.

As we have not generated any meaningful revenues since our inception, we have financed our operations through public and private offerings of debt and equity securities. We do not currently maintain a line of credit or term loan with any commercial bank or other financial institution. The following sets forth our primary sources of capital during the previous two years:

Between August 2010 and December 2010, we raised proceeds of $2,000,000 through the sale of 10,000,000 shares of common stock in a private placement transaction to accredited investors.

During 2010, we received aggregate proceeds of $160,000 and $240,000 from the exercise of options and warrants to purchase an aggregate of 4,000,000 and 6,892,858 shares of our common stock, respectively.

During 2010, we issued a series of unsecured promissory notes to certain investors in the aggregate principal amount of $342,500. All of the notes were repaid in 2010 either with cash, shares of common stock, or a combination of cash and shares of common stock.

During 2011, we issued a series of unsecured promissory notes to certain investors, in the aggregate principal amount of $300,000.

During 2011, we commenced a private placement of our equity securities and raised $3,235,150 in proceeds in 2012, net of stock issuance costs of $28,000.

During 2012, we commenced a series of private placements of our equity securities and have raised $5,191,282 in proceeds, through September 30, 2012. We have commitments for an additional $250,000 related to one of these private placements.

Since our inception, we have focused on developing and implementing our business plan. We have begun to pay salaries to management and have utilized offshore programmers on a work for hire basis to assist in developing the demonstration model. We believe that our existing cash resources will not be sufficient to sustain our operations during the next twelve months. We currently need to generate sufficient revenues to support our cost structure to enable us to pay ongoing costs and expenses as they are incurred, finance the continued development of our Platform, and execute the business plan. If we cannot generate sufficient revenue to fund our business plan, we intend to raise such financing through the sale of debt and equity securities. The issuance of additional equity would result in dilution to existing shareholders. If we are unable to obtain additional funds when they are needed or if such funds cannot be obtained on terms acceptable to us, we may be unable to execute upon the business plan or pay costs and expenses as they are incurred, which could have a material, adverse effect on the business, financial condition and results of operations.

Even if we are successful in generating sufficient revenue or in raising sufficient capital in order to complete the marketing of our Virtual Piggy and development of our ParentMatch products, our ability to continue in business as a viable going concern can only be achieved when our revenues reach a level that sustains our business operations. We raised approximately $8.4 million from December 31, 2011 through September 30, 2012. The Virtual Piggy product was introduced to the marketplace in the third quarter of 2011.   We do not project that significant revenue will be developed until late 2013. While it is impossible to predict the amount of revenues, if any, that we may receive from our Virtual Piggy product, we presently believe, based solely on our internal projections, that we will generate revenues sufficient to fund our planned business operations if the Virtual Piggy product is marketed effectively and the ParentMatch product is developed in accordance with our plans. There can be no assurance that we will raise sufficient proceeds, or any proceeds, for us to implement fully our proposed business plan to aggressively develop, complete, and market our Virtual Piggy and ParentMatch products. Moreover there can be no assurance that even if our Virtual Piggy product is marketed effectively and the ParentMatch product is developed, that we will generate revenues sufficient to fund our operations. In either such situation, we may not be able to continue our operations and our business might fail.

The foregoing project implementation and projections were prepared by us in good faith based upon assumptions that we believe to be reasonable. No assurance can be given, however, regarding the attainability of the projections or the reliability of the assumptions on which they are based. The projections are subject to the uncertainties inherent in any attempt to predict the results of our operations, especially where new products and services are involved. Certain of the assumptions used will inevitably not materialize and unanticipated events will occur. Actual results of operations are, therefore, likely to vary from the projections and such variations may be material and adverse to us. Accordingly, no assurance can be given that such results will be achieved. Moreover due to changes in technology, new product announcements, competitive pressures, system design and/or other specifications we may be required to change the current plans for our Virtual Piggy and ParentMatch products.

Off-Balance Sheet Arrangements

As of September 30, 2012, we did not have any relationships with unconsolidated entities or financial partners, such as entities often referred to as structured finance or special purpose entities, established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As such, we are not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

Critical Accounting Policies

Our financial statements are impacted by the accounting policies used and the estimates and assumptions made by management during their preparation. A complete summary of these policies is included in note 2 of the notes to our financial statements. We have identified below the accounting policies that are of particular importance in the presentation of our financial position, results of operations and cash flows and which require the application of significant judgment by management.

Stock-based Compensation

We have adopted the fair value recognition provisions Financial Accounting Standard Board Accounting Standards Codification ("FASB ASC") 718. In addition, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 107 " *Share-Based Payment* " ("SAB 107") in March, 2005, which provides supplemental FASB ASC 718 application guidance based on the views of the SEC. Under FASB ASC 718, compensation cost recognized includes compensation cost for all share-based payments granted beginning January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of FASB ASC 718.

We have used the Black-Scholes option-pricing model to estimate the option fair values. The option-pricing model requires a number of assumptions, of which the most significant are, expected stock price volatility, the expected pre-vesting forfeiture rate and the expected option term (the amount of time from the grant date until the options are exercised or expire).

Compensation expense for unvested options granted to non-employees in previous periods is being amortized over the vesting period of the options, or the term of the consulting agreement, whichever is longer.

Revenue Recognition

In accordance with Securities and Exchange Commission ("SEC") Staff Accounting Bulletin) No. 104, Revenue Recognition (Codified in FASB ASC 605), we will recognize revenue when (i) persuasive evidence of a customer or distributor arrangement exists or acceptance occurs, (ii) a retailer, distributor or wholesaler receives the goods, (iii) the price is fixed or determinable, and (iv) collectability of the sales revenues is reasonably assured. Subject to these criteria, we will generally recognize revenue from Virtual Piggy and ParentMatch at the time of the sale of the associated product and will recognize revenue from the sale of role playing games when shipped.

ITEM 4. CONTROLS AND PROCEDURES.

As of September 30, 2012, we carried out the evaluation of the effectiveness of our disclosure controls and procedures required by Rule 13a-15(e) under the Exchange Act under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of September 30, 2012, our disclosure controls and procedures were effective to ensure that information we are required to disclose in reports that we file or submit under the Exchange Act is: (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (ii) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

There has been no change in our internal control over financial reporting identified in connection with this evaluation that occurred during our fiscal quarter ended September 30, 2012 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 6. EXHIBITS.

31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to 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.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURE

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.

VIRTUAL PIGGY, INC.

Date:	November 7, 2012	By:	/s/ Jo Webber
			Jo Webber
			Chief Executive Officer