SPO Medical Inc
Form 10-Q
August 22, 2011

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

FORM 10-Q

MARK ONE

x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the Quarterly Period ended June 30, 2011 or

¨ 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: 0-11772

SPO MEDICAL INC.
(Exact name of registrant specified in its charter)

Delaware	25-1411971
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

3 Gavish Street, POB 2454, Kfar Saba, Israel
(Address of principal executive offices, including zip code)

972-9-966-2520
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

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

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

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

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

As of August 19, 2011, SPO Medical Inc. had outstanding 33,565,673 shares of common stock, par value $0.01 per share.

*

INDEX PAGE

FORWARD LOOKING STATEMENTS

THE FOLLOWING DISCUSSION SHOULD BE READ IN CONJUNCTION WITH THE FINANCIAL STATEMENTS AND RELATED NOTES CONTAINED ELSEWHERE IN THIS FORM 10-Q. CERTAIN STATEMENTS MADE IN THIS DISCUSSION ARE "FORWARD-LOOKING STATEMENTS" WITHIN THE MEANING OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995. FORWARD-LOOKING STATEMENTS CAN BE IDENTIFIED BY TERMINOLOGY SUCH AS "MAY," "WILL," "SHOULD," "EXPECTS," "INTENDS," "ANTICIPATES," "BELIEVES," "ESTIMATES," "PREDICTS," OR "CONTINUE" OR THE NEGATIVE OF THESE TERMS OR OTHER COMPARABLE TERMINOLOGY AND INCLUDE, WITHOUT LIMITATION, STATEMENTS BELOW REGARDING: THE COMPANY'S INTENDED BUSINESS PLANS; EXPECTATIONS AS TO PRODUCT PERFORMANCE; EXPECTATIONS AS TO MARKET ACCEPTANCE OF THE COMPANY'S TECHNOLOGY; AND BELIEF AS TO THE SUFFICIENCY OF CASH RESERVES. BECAUSE FORWARD-LOOKING STATEMENTS INVOLVE RISKS AND UNCERTAINTIES, THERE ARE IMPORTANT FACTORS THAT COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE EXPRESSED OR IMPLIED BY THESE FORWARD-LOOKING STATEMENTS. THESE FACTORS INCLUDE, BUT ARE NOT LIMITED TO, SUFFICIENCY OF CASH RESERVES, THE COMPANY'S INABILITY TO OBTAIN ADDITIONAL NEEDED FINANCING; GOING CONCERN QUALIFICATIONS; THE COMPETITIVE ENVIRONMENT GENERALLY AND IN THE COMPANY'S SPECIFIC MARKET AREAS; CHANGES IN TECHNOLOGY; THE AVAILABILITY OF AND THE TERMS OF FINANCING; INFLATION; CHANGES IN COSTS AND AVAILABILITY OF GOODS AND SERVICES; ECONOMIC CONDITIONS IN GENERAL AND IN THE COMPANY'S SPECIFIC MARKET AREAS; DEMOGRAPHIC CHANGES; CHANGES IN FEDERAL, STATE AND /OR LOCAL GOVERNMENT LAW AND REGULATIONS AFFECTING THE TECHNOLOGY; CHANGES IN OPERATING STRATEGY OR DEVELOPMENT PLANS; AND THE ABILITY TO ATTRACT AND RETAIN QUALIFIED PERSONNEL. ALTHOUGH THE COMPANY BELIEVES THAT EXPECTATIONS REFLECTED IN THE FORWARD-LOOKING STATEMENTS ARE REASONABLE, IT CANNOT GUARANTEE FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS. MOREOVER, NEITHER THE COMPANY NOR ANY OTHER PERSON ASSUMES RESPONSIBILITY FOR THE ACCURACY AND COMPLETENESS OF THESE FORWARD-LOOKING STATEMENTS. THE COMPANY IS UNDER NO DUTY TO UPDATE ANY FORWARD-LOOKING STATEMENTS AFTER THE DATE OF THIS REPORT TO CONFORM SUCH STATEMENTS TO ACTUAL RESULTS.

SPO MEDICAL INC. AND ITS SUBSIDIARY
CONDENSED INTERIM CONSOLIDATED BALANCE SHEET

(U.S. dollars in thousands)

	June 30, 2011 Unaudited	December 31, 2010 Audited
ASSETS		
CURRENT ASSETS		
Prepaid expenses and other accounts receivable	$ 32	$ 34
LONG-TERM INVESTMENTS		
Severance pay fund	145	181
PROPERTY AND EQUIPMENT, NET	2	111
TOTAL ASSETS	$ 179	$ 326
LIABILITIES AND STOCKHOLDERS' DEFICIENCY		
CURRENT LIABILITIES		
Bank overdraft	$ 33	$ 8
Short-term loans, net	858	776
Trade payables	16	45
Employees and payroll accruals	561	463
Accrued expenses and other payables	773	621
	2,241	1,913
LONG-TERM LIABILITIES		
Long term loan	69	-
Warrants to issue shares	329	218
Accrued severance pay	264	313
	662	531
STOCKHOLDERS' DEFICIENCY		
Stock capital	335	325
Additional paid-in capital	16,920	16,062
Accumulated deficit	(19,979)	(18,505)
	(2,724)	(2,118)
TOTAL LIABILITIES AND STOCKHOLDER'S DEFICIENCY	$ 179	$ 326

The accompanying notes to these financial statements are an integral part thereof.

SPO MEDICAL INC.AND ITS SUBSIDIARY
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS

(U.S. dollars in thousands except share data)

	Six months ended June 30, Unaudited		Three months ended June 30, Unaudited	
	2011	2010	2011	2010
Revenues	$-	$113	$-	$92
Cost of revenues	-	90	-	72
Gross profit	-	23	-	20
Operating expenses				
Research and development, net	54	98	4	49
Selling and marketing	767	-	395	-
General and administrative	348	351	134	197
Impairment of property and equipment, net	96	-	-	-
Total operating expenses	1,265	449	533	246
Operating loss	1,265	426	533	226
Financial expenses, net	209	120	106	118
Net loss	$1,474	$546	$639	$344
Loss for the period				
Loss per share	$(0.03)	$(0.02)	$(0.01)	$(0.01)
Weighted average number of shares outstanding used in computation of basic and diluted loss per share	43,307,223	26,840,648	43,529,723	26,967,315

The accompanying notes to these financial statements are an integral part thereof.

4

SPO MEDICAL INC.
AND ITS SUBSIDIARY
CONDENSED INTERIM STATEMENTS OF CASH FLOWS
U.S. dollars in thousands

	Six months ended June 30,		Three months ended June 30,	
	2011	2010	2011	2010
	Unaudited		Unaudited	
Cash Flows used in Operating Activities				
Loss for the period	$(1,474)	$(546)	$(639)	$(344)
Adjustments to reconcile loss to net cash used in operating activities:				
Depreciation	13	19	-	10
Amortization of deferred interest expenses	13	-	13	-
Non-cash amortization expenses and Stock-based compensation expenses	753	157	370	157
Income resulted from a settlement with a loaner	-	(64)	-	(31)
Non-cash expenses related to warrants to issue shares	111	-	34	-
Grant of ordinary stock to service providers	90	71	12	71
Increase in accrued interest payable on loans	33	30	17	15
Impairment of property and equipment, net	96	-	-	-
Changes in assets and liabilities:				
Decrease in trade receivables	-	15	-	7
Decrease (increase) in other receivables	2	13	(4)	-
Increase (decrease) in accounts payable	(29)	(12)	2	(10)
Increase (decrease) in employees and payroll accruals	98	(6)	31	(15)
Increase (decrease) in accrued severance pay, net	(13)	(8)	8	(10)
Increase in other payables and accrued expenses	152	24	78	19
Net cash provided by used in operating activities	(155)	(307)	(78)	(131)
Cash Flows from Investing Activities				
Payment received in connection with license agreement	-	100	-	-
Net cash provided by investing activities	-	100	-	-
Cash Flows from (used in)Financing Activities				
Capital raise, net	25	-	25	-
Increase (decrease) in bank overdraft	25	-	(2)	-
Proceeds from loan	105	-	55	-
Repayment of short-term loans	-	(83)	-	(44)
Net cash provided by (used in) financing activities	155	(83)	78	(44)
Decrease in cash and cash equivalents	-	(290)	-	(175)
Cash and cash equivalents at the beginning of the period	-	386	-	271
Cash and cash equivalents at the end of the period	$-	$96	$-	$96

The accompanying notes to these financial statements are an integral part thereof.

5

SPO MEDICAL INC AND ITS SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS

(U.S. dollars in thousands (except share data))

NOTE 1 - General

SPO Medical Inc. (hereinafter referred to as "SPO" or the "Company") is engaged in the design, development and marketing of non-invasive pulse oximetry technologies to measure blood oxygen saturation and heart rate. The applications are marketed, in the following sectors; professional medical care, homecare, sports, safety and search & rescue.

The Company was originally incorporated under the laws of the State of Delaware in September 1981 under the name "Applied DNA Systems, Inc." On November 16, 1994, the Company changed its name to "Nu-Tech Bio-Med, Inc." On December 23, 1998, the Company changed its name to "United Diagnostic, Inc." Effective April 21, 2005, the Company acquired (the "Acquisition Transaction") 100% of the outstanding capital stock of SPO Medical Equipment Ltd., a company incorporated under the laws of the State of Israel ("SPO Ltd."), pursuant to a Capital Stock Exchange Agreement dated as of February 28, 2005 between the Company, SPO Ltd. and the shareholders of SPO Ltd., as amended and restated on April 21, 2005 (the "Exchange Agreement"). In exchange for the outstanding capital stock of SPO Ltd., the Company issued to the former shareholders of SPO Ltd. a total of 5,769,106 shares of the Company's common stock, par value $0.01 per share ("Common Stock"), representing approximately 90% of the Common Stock then issued and outstanding after giving effect to the Acquisition Transaction. As a result of the Acquisition Transaction, SPO Ltd. became a wholly owned subsidiary of the Company as of April 21, 2005 and, subsequent to the Acquisition Transaction, the Company changed its name to "SPO Medical Inc." Upon consummation of the Acquisition Transaction, the Company effectuated a forward subdivision of the Company's Common Stock issued and outstanding on a 2.65285:1 basis.

The merger between UNDI and the SPO Ltd was accounted for as a reverse merger. As the shareholders of SPO Ltd received the largest ownership interest in the Company, SPO Ltd was determined to be the "accounting acquirer" in the reverse acquisition. As a result, the historical financial statements of the Company were replaced with the historical financial statements of the SPO Ltd.

The Company and its subsidiary, SPO Ltd., are collectively referred to as the "Company". In January 2010, the Company restructured its operations to focus primarily on licensing its core technology for non-medical market applications. The restructuring included entering into a licensing agreement (the “License”) for the then existing medical PulseOx product line with an entity owned by the Company’s then Chief Technology Officer (hereinafter the “Licensee”). Under the terms of the License, the Licensee was granted a non-transferable, royalty bearing license, to distribute the PulseOx product line and derivatives thereof, for specifically defined medical uses. Following the License, the Company ceased its previous operations associated with the distribution of the PulseOx line in the medical field. In February 2011, the Company transferred research and development activities to external subcontractors, thereby ceasing all internal research and development activities.

NOTE 2 - Basis of Presentation

The accompanying un-audited condensed consolidated interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with Rule 8.03 of Regulation S-X. These financial statements reflect all adjustments, consisting of normal recurring adjustments and accruals, which are, in the opinion of management, necessary for a fair presentation of the financial position of the Company as of June 30, 2011 and the results of operations and cash flows for the interim periods indicated in conformity with generally accepted accounting principles applicable to interim periods. Accordingly, certain information and footnote disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. Operating results for the six months ended June 30, 2011, are not necessarily indicative of the results that may be expected for the year ended December 31, 2011.

Certain prior years' amounts have been reclassified in conformity with current year's financial statements.

NOTE 3 - Going Concern

As reflected in the accompanying financial statements, the Company’s operations for the six and three months ended June 30, 2011, resulted in a net loss of $1,474 and $639, respectively, and the Company’s balance sheet reflects a net stockholders’ deficit of $2,724 The Company’s ability to continue operating as a “going concern” is dependent on its ability to raise sufficient additional working capital. As disclosed in previous filings with the Securities and Exchange Commission, management has been attempting to raise additional cash from current and potential stockholders and plans to continue these efforts.

6

SPO MEDICAL INC AND ITS SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS

(U.S. dollars in thousands (except share data))

NOTE 4 - Financial Expenses

Financial expenses, net, for the six months ended June 30, 2011 and 2010 were $209 and $120, respectively. Financial expenses, net, for the three months ended June 30, 2011 and 2010 were $106 and $118, respectively. The principal components of the financial expenses during the six and three months ended June 30, 2011 were: (i) Non-cash financial expenses related to warrants to issue shares in the amount of $111 during the six months ended June 30, 2011 compared to non-cash amortization expenses in the amount of $155 during the six months ended June 30, 2010 (ii) interest recorded during the six months ended June 30, 2011 and 2010 in the amount of $33 and $30, respectively, in respect of debt instruments issued by the Company between April 2005 and March 2011, (iii) income recorded during the six months ended June 2010 in the amount of $64 in accordance with settlement agreements signed with holders of debt instruments. (iv) non cash expenses related to issuance of shares to service providers during the six months ended June 30, 2011 on the amount of $12 in connection with Equity line of credit (v) non cash amortization of deferred interest expenses related to convertible notes issued in May 2011 $13 and (vi) exchange rate expenses and other in the amount of $40 during the six months ended June 30, 2011 period and $1 income during the six months ended June 2010 period

NOTE 5 - Stockholders Equity

Issuance of Securities

On January 25, 2011, the Company issued 200,000 shares of the Company’s Common Stock to a consultant in connection with consulting services provided by such consultant.

In February and March, 2011, the Company issued 500,000 shares of the Company’s Common Stock to a consultant in connection with investor relations services.

In May 2011, the Company entered into a Securities Purchase Agreement with an investor pursuant to which it issued its 8% convertible promissory note in the principal amount of $50. The loan, together with accrued interest, is scheduled to mature on May 3, 2012. Commencing November 4, 2011, the Investor is entitled to convert all or any part of the outstanding and unpaid principal amount on the note, as well as the interest accrued, into shares of the Company’s Common Stock at a conversion rate equal to 55% of the average of the five lowest closing sale prices during the ten days preceding the conversion date. For financial reporting purposes, the conversion feature was recorded in short term liabilities at its fair value of $41. Accordingly, the company recorded a discount of $41 on the convertible promissory note to be amortized through November 4 2011.

On June 1, 2011, the Company received from investor net proceeds of $25 in consideration for the purchase of shares of the Company’s Common Stock. In connection therewith, in June 2011, the Company issued to the investor 166,667 shares of the Company’s Common Stock

On May 18, 2011 the Company and an investor signed a Term Sheet regarding an Equity line of credit which was consummated via an Investment Agreement signed on July 7, 2011. According to the Investment Agreement the investor committed to purchase, subject to certain restrictions and conditions, up to $5,000 of the Company's common stock, par value $0.01 per share over a period of 36 months from the first trading day following the effectiveness of the registration statement registering the resale of shares purchased by the investor pursuant to the Investment

Agreement. Pursuant to the terms of a Registration Rights Agreement dated as of July 5, 2011 between the Company and the investor, the Company is obligated to file, by September 5, 2011, a registration statement with the Securities and Exchange Commission to register the resale by the investor of the shares of common stock issued or issuable under the Investment Agreement. The Company is required to initially register 10,000,000 shares of common stock. The Company is obligated to use all commercially reasonable efforts to have the registration statement declared effective within 90 days after the filing. In connection with the Investment Agreement, the Company issued 166,666 shares of its Common Stock as a document preparation fee.

SPO MEDICAL INC AND ITS SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS

(U.S. dollars in thousands (except share data))

NOTE 6 - Subsequent Events

On August 11, 2011, the company received $75 from an existing investor on account for a loan the terms of which are currently under negotiation. The loan is expected to bear interest at the rate of 10% per annum and all outstanding amounts are to be due and payable in August 2013.

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

THE FOLLOWING DISCUSSION SHOULD BE READ IN CONJUNCTION WITH OUR FINANCIAL STATEMENTS AND THE NOTES RELATED TO THOSE STATEMENTS. SOME OF OUR DISCUSSION IS FORWARD-LOOKING AND INVOLVES RISKS AND UNCERTAINTIES. FOR INFORMATION REGARDING RISK FACTORS THAT COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS, REFER TO THE RISK FACTORS SECTION OF THE ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2010.

OVERVIEW

SPO Medical Inc. (“we” or the “Company” or “SPO”) is engaged in the design and development of non-invasive pulse oximetry technologies to measure blood oxygen saturation and heart rate. We have developed and patented proprietary technology that enables the measurement of heart rate and oxygen saturation levels in the blood, which is known as Reflectance Pulse Oximetry (RPO). RPO functions using an ASIC (application specific integrated circuit), which is equivalent to a “customized” semi-conductor. Using this technology, a sensor can be positioned on various body parts, minimizing problems from motion artifacts and poor perfusion. The unique design features contribute to substantially lower power requirements and enhance wireless, stand-alone configurations facilitating expanded commercial possibilities. As of August 2011, we hold 12 patents issued by the United States Patent and Trademark Office ("USPTO") and European Patent Authorities covering various aspects of our technologies.

We are currently focused on exploiting the sports and wellness markets by developing cutting edge products based on our proprietary technology. These are multibillion dollar markets which we intend to penetrate with our disruptive technologies. Our current wellness products include an innovative bracelet and a sports watch.

The SPO sports watch has been designed to measure continuous heart-rate wirelessly, without the need to wear a conventional chest strap. This is a major and unique practical advantage over current products that we believe exist in the general leisure and wellness market. As importantly, the watch will be able to read the heart rate without the sports enthusiast ceasing his physical activity. This will be made possible through the use of SPO’s patented reflectance technology. Due to our belief that our solution is unique to a large market, we also expect that the vertical application of our product line is a major opportunity for us. We anticipate that subject to securing adequate financing, the product should become commercially available during 2012.

In addition to the sports watch, we are in the final stages of developing an innovative wellness bracelet that measures the number of activities an individual performs on a given day. The bracelet, designed for both children and adults, features a display function to continuously measure the number of daily activities against preset recommended goals. SPO has designed and patented the functionality of the bracelet to be an affordable, simple-to-use, fashion accessory to encourage users to increase their mobility and overall wellness and to wear it with pride.

Although we currently focus on the sports and wellness market, we have a legacy business that has been dedicated to the health care and medical products industry. Recently, we decided to switch our concentration. In January 2010, our wholly owned subsidiary SPO Ltd. entered into an Alliance and License Agreement, dated as of December 1, 2009, with an entity owned and controlled by our former Chief Technical Officer (the “Licensee”). Under the terms of the license agreement, the PulseOx medical product line is being marketed by the Licensee in the medical field.

Following our entry into the license agreement, our focus moved away from medical products. In addition to our entry into the sports and wellness markets, we are also engaged in developing and licensing our technology to third parties for integration with products in the recreational, military and baby wellness monitoring fields.

We have generated significant operating losses since inception and we have a limited operating history upon which an evaluation of our prospects can be made. Our prospects must therefore be evaluated in light of the problems, expenses, delays and complications associated with a development stage company.

We need to raise additional funds on an immediate basis in order to realize our business plan as well as pay outstanding loans in the approximate amount of $952,000, of which $305,000 are currently due and payable, and to maintain operations. In response to the deteriorating global economic conditions that began in 2008, we have taken certain measures in an effort to reduce operating expenses and conserve our cash resources. Beginning July 2008, we have significantly curtailed our non-essential product design and development, and ceased all marketing activities and product manufacturing. We have terminated certain product development plans. During 2008 we deferred part of management and employee salaries and benefits. In January 2010, we restructured our operations in an attempt to focus primarily on our core technology for non-medical market operations. The restructuring included entering into a licensing agreement for our then existing medical PulseOx product line, which resulted in the cessation of the Company's production, selling and marketing activities. As of August 19, 2011, we had three employees working on a full-time basis. In addition, all research and development activities are performed on a sub-contracted basis. If we are unable to raise capital on an immediate basis, it may be necessary for us to take further cost cutting measures to reduce our cash burn including laying-off additional personnel and/or cease operations entirely. No assurance can be given that we will be able to raise the needed capital. These conditions raise substantial doubt about our ability to continue as a going concern.

CRITICAL ACCOUNTING POLICIES

The discussion and analysis of our financial condition and results of operations are based upon our unaudited consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles in the United States. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to revenue recognition, bad debts, investments, intangible assets and income taxes. Our estimates are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

We have identified the accounting policies below as critical to our business operations and the understanding of our results of operations.

WARRANTS TO ISSUE SHARES

The Company treated the issuance of the warrants in connection with its private placement in accordance with ASC 815-40 Contracts in Entity's Own Equity. The Company determined that the warrants are considered derivatives and should be classified as liabilities carried at fair value through profit and loss. The reason for that classification is that the exercise price of the warrants may be adjusted in response to changes in variables not considered to be inputs to the fair value of a fixed-for-fixed option on equity shares.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

RESULTS OF OPERATIONS

COMPARISON OF THE SIX AND THREE MONTHS ENDED JUNE 30, 2011 AND THE SIX AND THREE MONTHS ENDED JUNE 30, 2010

As noted above, in January 2010, we restructured our operations to focus primarily on licensing our core technology for non-medical market application. The restructuring included entering into a licensing agreement for the existing medical PulseOx product line with an entity owned by the Company’s then Chief Technology Officer. Under the terms of the License, the Licensee was granted a non-transferable, royalty bearing license, to distribute the PulseOx product line and derivatives thereof, for specifically defined medical uses. Following the License, the Company ceased its previous operations associated with the distribution of the PulseOx line in the medical field entered into the License pursuant to which our PulseOx medical product line is being marketed by the Licensee in the medical field. Following the License, we are primarily engaged in developing and licensing our technology to third parties for integration with products in the recreational, military and baby wellness monitoring markets.

REVENUES. No revenues were recorded for the six and three months ended June 30, 2011 compared to revenues of $113,000 and $92,000, respectively, recorded during the corresponding periods in 2010. The revenues during the 2010 period were generated from research and development services that we provided.

RESEARCH AND DEVELOPMENT EXPENSES, NET. Research and development expenses, net, consist primarily of expenses incurred in the design, development and testing of our products. These expenses consist primarily of salaries and related expenses for employees, contract design and testing services, supplies used and consulting fees paid to third parties. Research and development expenses, net, for the six and three months ended June 30, 2011 were $54,000 and $4,000, respectively, compared to $98,000 and $49,000 for the corresponding periods in 2010. The decrease in research and development expenses, net, during the six and three months ended June 30, 2011 as compared to the corresponding periods in 2010 is primarily attributable to the transfer, commencing February 2011, of research and development activities to subcontractors, resulting in the cessation of all internal research and development activities.

SELLING AND MARKETING EXPENSES. Selling and marketing expenses consist primarily of costs relating to compensation attributable to consultants for the provision of public relations, promotion and marketing services geared to the recreational sports and wellness market. Selling and marketing expenses for six and three months ended June 30, 2011 were $767,000 and $395,000, respectively, of which $741,000 and $371,000 are stock based non cash expenses. There were no selling and marketing expenses for the corresponding periods in 2010. The increase in selling and marketing expenses during the six and three months ended June 30, 2011 as compared to the corresponding periods in 2010 is primarily attributable to the increase in our marketing efforts in the sports and wellness market.

GENERAL AND ADMINISTRATIVE EXPENSES. General and administrative expenses primarily consist of salaries and other related costs for personnel in executive and other administrative functions. Other significant costs include professional fees for legal and accounting services. General and administrative expenses for the six and three months ended June 30, 2011 were $348,000 and $134,000, respectively, as compared to $351,000 and $197,000 for the corresponding periods in 2010. The decrease in general and administrative expenses during the six and three months ended June 30, 2011 as compared to the corresponding periods in 2010 is primarily attributable to the decrease in non-cash general and administrative stock based expenses incurred in the three months ended June 30, 2010 in the amount of $72,000.

IMPAIRMENT OF PROPERTY AND EQUIPMENT, NET. In February 2011, we transferred research and development activity to subcontractors and therefore ceased all internal research and development activities which resulted in a impairment to property and equipment in the amount of $96,000

FINANCIAL EXPENSES, NET Financial expenses, net, for the six months ended June 30, 2011 and 2010 were $209,000 and $120,000, respectively. Financial expenses, net, for the three months ended June 30, 2011 and 2010 were $106,000 and $118,000, respectively. The principal components of the financial expenses during the six and three months ended June 30, 2011 were: (i) Non-cash financial expenses related to warrants to issue shares in the amount of $111,000 during the six months ended June 30, 2011 compared to non-cash amortization expenses in the amount of $155,000 during the six months ended June 30, 2010 (ii) interest recorded during the six months ended June 30, 2011 and 2010 in the amount of $33,000 and $30,000, respectively, in respect of debt instruments issued by the Company between April 2005 and March 2011, (iii) income recorded during the six months ended June 2010 in the amount of $64,000 in accordance with settlement agreements signed with holders of debt instruments, (iv) non cash expenses related to issuance of shares to service providers during the six months ended June 30, 2011 on the amount of $12,000 in connection with equity line of credit, (v) non cash amortization of deferred interest expenses related to convertible notes issued in May 2011 $13,000 and (vi) exchange rate expenses and other in the amount of $40,000 during the six months ended June 30, 2011 period and $1,000 income during the six months ended June 2010 period

NET LOSS. For the six and three months ended June 30, 2011 were $1,474,000 and $639,000, respectively, as compared to $546,000 and $344,000 for the corresponding periods in 2010. The increase in net loss for the six and three months ended June 30, 2011 compared to corresponding periods in 2010 is primarily attributable to the following expenses recorded during the six and three months ended June 30, 2011: (i) non-cash selling and marketing stock based expenses incurred in connection with our increased marketing efforts in the sports and wellness market in the approximate amount of $741,000 and $370,000 during each of the six and three months ended June 30, 2011, respectively, offset by the decrease in expenses resulting from the outsourcing of all research and development activities beginning in February 2011

LIQUIDITY AND CAPITAL RESOURCES

We need to raise additional funds in order to meet our on-going operating requirements, pay outstanding loans in the aggregate approximate amount of $952,000 and to realize our restructured business plan. In response to the deteriorating global economic conditions that began in 2008, we have taken certain measures in an effort to reduce operating expenses and conserve our cash resources. Beginning in July 2008 we significantly curtailed our non-essential product design and development, marketing activities and reorganized our product manufacturing and delivery system to “just-in-time” arrangements. We have terminated certain product development plans. During 2008 till March 2011, we deferred part of management and employee salaries and benefits. As of August 19, 2011, we had three employees working on a full-time basis. As noted above, in our restructured operations, we intend to pursue joint ventures, OEM type arrangement, research and or sub contractor agreements relating to our oximetry technology with respect to the recreational, military and baby wellness monitoring fields. If we are unable to raise capital through a financial raise or joint-venture type of agreement on an immediate basis, it may be necessary for us to take further measures to reduce our cash burn including laying-off additional personnel, or ceasing operations entirely. No assurance can be given that we will be able to raise the needed capital. These conditions raise substantial doubt about our ability to continue as a going concern. Any additional equity financings is likely to be dilutive to holders of our Common Stock and debt financing, if available, may require us to be bound by significant repayment obligations and covenants that restrict our operations.

As of June 30, 2011, we had no cash and cash equivalents available to us.

We generated negative cash flow from operating activities of approximately $155,000 and $78,000 during the six and three months ended June, 30 2011 compared to $307,000 and $131,000 for the six and three months ended June 30, 2010 period. We had cash provided by financing activities to finance the operating activities.

In December 2005 we completed the private placement to certain accredited investors that commenced in April 2005 for the issuance of up to $1,544,000 of units of its securities, with each unit comprised of (i) the Company’s 18 month 6% promissory note (collectively, the "April 2005 Notes") and (ii) three year warrants to purchase up to such number of shares of the Company’s Common Stock as are determined by the principal amount of the Note purchased by such investor divided by $ 0.85 (collectively the "April 2005 Warrants"). The Company and the holders of $1,464,000 in principal amount of the April 2005 Notes subsequently agreed to (a) extend the maturity term of the April 2005 Notes through March 26, 2008, (b) extend the exercise period of the April 2005 Warrants from three to five years with an expiration date of September 26, 2010 and adjust the per share exercise price thereof to $0.60 and (c) increase the interest rate on the amounts outstanding under the April 2005 Notes to 8% per annum, effective July 12, 2006. Holders of notes in the principal amount of $125,000 that agreed to the extension of the maturity date on the notes, have since exercised their warrants and converted the interest accrued thereon into Common Stock; a holder of an April 2005 Notes in the principal amount of $50,000 was repaid. The Amendment also provided that if we subsequently issue shares of our Common Stock at an effective per share exercise price less than that of the adjusted per share exercise price of the April 2005 Warrants during the adjusted exercise period, then the exercise price thereof is to be reduced to such lower exercise price, except for certain specified issuances. All of the extended notes matured on March 26, 2008. On December 31, 2009, we and the last holder of $30,000 who did not sign the Amendment agreed to extend the note’s maturity date to December 31, 2011 in consideration of the issuance of warrants to purchase up to 50,000 shares of our common stock, exercisable through the third anniversary of issuance, at a per share exercise price of $0.01.

In March 2008, we offered to the holders of the April 2005 Notes to apply the amounts payable to them on the April 2005 Notes, to the exercise price of the April 2005 Warrants, thereby exercising these warrants, and to convert into Common Stock the accrued interest on the 2005 Notes at a per share conversion price of $0.60. Note holders who accepted this offer were issued new warrants for such number of shares of Common Stock equal to 25% of the number shares issued to them upon exercise of their existing warrants and conversion of the interest accrued on the note. The new warrants will be exercisable over three years at an exercise price of $0.60. As of December 31, 2009, the holders of approximately $439,000 in principal amount have agreed to apply the principal amount owed to them to the exercise price of the April 2005 Warrants. Accordingly, approximately $520,000 in amounts owed under the 2005 Notes have been converted into equity and, accordingly, an aggregate of 866,528 shares of our Common Stock have been issued upon exercise of the April 2005 Warrants and conversion of the interest owing on the April 2005 Notes. Under the terms of the offer, new warrants for 216,636 share of our Common stock have been issued to these April 2005 Note holders, exercisable over three years from the date of issuance. We have been informed by the holders of $300,000 in principal amount of their election to not accept our offer, of which $250,000 of principal and the accrued interest thereon has been repaid as of December 31, 2009. On March 15, 2010, we agreed with the holder of an April 2005 Note in the principal amount of $50,000 to extend the Note’s maturity date to September 15, 2010 and, in consideration thereof, we agreed to pay the holder total amount of $45,000, which was paid in full. On February 5, 2009, we agreed with one of the Note holders to repay $25,000 in principal over a number of payments during 2009 and to convert accrued interest to 26,500 shares of common stock. On May 31, 2010, we issued to two note holders of the principal amount of $200,000 warrants to purchase up to 600,000 shares of our Common Stock in consideration of such investors' extension to December 31, 2011 of the maturity date of April 2005 Notes held by them and the cancellation of previously issued warrants to purchase up to an aggregate of 333,333 shares of our Common Stock. The warrants are exercisable through December 31, 2013 at a per share exercise price of $0.15. On July 27, 2010, we issued to two holders of the April 2005 Notes a total of 1,370,000 restricted shares of our Common Stock in satisfaction of a note held by one of the accredited investors in the approximate amount of $202,000 and warrants, exercisable through November 15, 2010 to purchase up to 700,000 shares of our Common Stock, at a per share exercise price of $0.15; on November 15, 2010, warrants for 666,667 shares were exercised for cash proceeds to us of $100,000. As of June 30, 2011, the outstanding April 2005 Notes principal and accrued interest in the aggregate amount of $612,000.

In July 2006, the Company commenced a private placement of units of its securities the “Loan Notes”, with each unit comprised of (i) the Company’s 8% month promissory note due 12 months from the date of issuance and (ii) warrants as described below, pursuant to which the Company raised $550,000 (the maximum amount that could be raised from this offering). Under the terms of the offering, the principal and accrued interest was due in one balloon payment at the end of the twelve month period. Each purchaser of the notes received warrants, exercisable over a period of two years from the date of issuance, to purchase 16,250 shares of Common Stock for each $25,000 of principal loaned, at a per share exercise price equal to the lower of $1.50 or 35% less than any offering price at an initial public offering of the Company's Common Stock during the warrant exercise period. During 2007, the Company offered to the holders of the notes to convert the principal and accrued interest into shares of the Company’s Common Stock at a per share conversion price of $0.90. The holders of $238,000 of the principal amount agreed to convert the principal and accrued interest thereon into shares of the Company’s Common Stock. In 2007, the Company repaid to one note holder the principal amount of $75,000 and the accrued interest thereon. On December 31, 2009 the Company and a holder of a Loan Notes in the principal amount of $150,000 agreed to extend the Note’s maturity date to December 31, 2011 in consideration of the issuance of warrants to purchase up to 50,000 shares of the of the Company’s Common Stock, at a per share exercise price of $0.01 exercisable for a period of three years. On June 30, 2010, the company issued 105,074 restricted shares of our Common Stock to a Note holder in satisfaction of $16,000 owed to such holder and the cancellation of previously issued warrants to purchase up to 7,800 shares of the Company's Common Stock. . On May 31 2011, the Company and a Note holder of the principal amount of $50,000 agreed to extend the maturity date to May 31, 2014 and all or part of the principal and interest under the Note may be converted to shares of the company at a per share conversion price of $0.30. The conversion price of the original warrants associated with the Note was updated to $0.60 and exercise date was extended until May 31, 2016. As of June 30, 2011, approximately $165,000 in respect of the principal and accrued interest on these notes remains outstanding.

In July and September 2010, we raised net proceeds of approximately $529,000 from the private placement to accredited investors of units of our securities. Each unit offered in the private placement consisted of (i) 200,000 shares of the Company's common stock and (ii) a three-year warrant to purchase 100,000 shares of the Company’s Common Stock at a per share exercise price of $0.25 per share. A total of 4,125,667 shares of Common Stock were issued in this private placement. In addition, Investor Warrants to purchase a total of 2,062,833 shares of Common Stock at the exercise price of $0.25 per share were issued. The private placement terminated on October 13, 2010.

On December 29, 2010, we and our Chief Executive Officer entered into a loan agreement pursuant to which the Chief Executive Officer loaned to the Company $30,000 for working capital purposes. The original maturity date of the loan was January 29, 2011. The loan bears interest at a per annum rate of 8%. In January 2011, the maturity date of the loan was extended to April 30, 2011 and in August 2011 $15,000 was repaid.

On March 25, 2011, we and one of our stockholders entered into a loan agreement pursuant to which the stockholder loaned to the Company $50,000 for working capital purposes. The original maturity date of the loan is March 25, 2012. The loan bears interest at a per annum rate of 8%.

In May 2011, we entered into a Securities Purchase Agreement with an investor pursuant to which we issued an 8% convertible promissory note in the principal amount of $50,000 that is convertible into shares of our Common Stock. The loan, together with accrued interest, is scheduled to mature in May 2012. Commencing November 4, 2011, the Investor is entitled to convert all or any part of the outstanding and unpaid principal amount on the note, as well as the interest accrued, into shares of the Company’s Common Stock at a conversion rate equal to 55% of the average of the five lowest closing sale prices during the ten days preceding the conversion date. For financial reporting purposes, the conversion feature was recorded in short term liabilities at its fair value of $40,909. Accordingly, the company recorded a discount of $40,909 on the convertible promissory note to be amortized through November 4 2011.

15

On May 18, 2011 the Company and an investor signed a Term Sheet regarding an Equity line of credit which was consummated via an Investment Agreement signed on July 7, 2011. According to the Investment Agreement the investor committed to purchase, subject to certain restrictions and conditions, up to $5,000,000 of the Company's common stock, par value $0.01 per share over a period of 36 months from the first trading day following the effectiveness of the registration statement registering the resale of shares purchased by the investor pursuant to the Investment Agreement. Pursuant to the terms of a Registration Rights Agreement dated as of July 5, 2011 between the Company and the investor, the Company is obligated to file, by September 5, 2011, a registration statement with the Securities and Exchange Commission to register the resale by the investor of the shares of common stock issued or issuable under the Investment Agreement. The Company is required to initially register 10,000,000 shares of common stock. The Company is obligated to use all commercially reasonable efforts to have the registration statement declared effective within 90 days after the filing. In connection with the Investment Agreement, the Company issued 166,666 shares of its Common Stock as a document preparation fee.

In June 2011, we received from investor net proceeds of $25,000 in consideration for the purchase of shares of our Common Stock. In connection therewith, in June 2011, the Company issued to the investor 166,667 shares of the Company’s Common Stock.

On August 11, 2011, we received $75,000 from an existing investor on account for a loan the terms of which are currently under negotiation. The loan is expected to bear interest at the rate of 10% per annum and the outstanding principle and accrued interest will become due and payable in August 2013.

ITEM 4. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES. We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer, as appropriate, to allow timely decisions regarding required disclosure based closely on the definition of "disclosure controls and procedures" in Rule 13a-14(c).

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with participation of management, including our Chief Executive Officer, who serves as our principal executive officer and principal financial and accounting officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing, our Chief Executive Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report to provide reasonable assurance that material information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms

Management is aware that there is a lack of segregation of duties due to the small number of employees dealing with general administrative and financial matters. However, at this time, management has decided that considering the employees involved, the control procedures in place, and the outsourcing of certain financial functions, the risks associated with such lack of segregation are low and the potential benefits of adding additional employees to clearly segregate duties do not justify the expenses associated with such increases. Management will periodically reevaluate this situation. If the volume of the business increases and sufficient capital is secured, it is our intention to increase staffing to mitigate the current lack of segregation of duties within the general administrative and financial functions.

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems no evaluation of controls can provide absolute assurance that all control issues, if any, within a company have been detected. Such limitations include the fact that human judgment in decision-making can be faulty and that breakdowns in internal control can occur because of human failures, such as simple errors or mistakes or intentional circumvention of the established process.

CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING. During the quarter ended June 30, 2011, there have been no changes in our internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, these controls.

PART II - OTHER INFORMATION

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

We first disclosed in the quarterly report on Form 10-Q for the three months ended March 31, 2008, that we had not repaid principal and accrued interest that became due during the quarterly period covered by such report. We disclosed in subsequent quarterly reports on Form 10-Q additional amounts that became due in ensuing quarterly periods and the results of our efforts to resolve these matters. As of August 19, 2011, there continues to remain outstanding, in the aggregate approximately $305,000 of such principal and accrued interest. We continue to hold discussions with certain of the holders of the outstanding debt in an attempt to resolve this matter; no assurance can be provided that we will be successful in concluding any mutually acceptable resolution of this matter.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS.

31	Rule 13a - 14(a) Certification of Principal Executive Officer (and Principal Financial and Accounting Officer)
32	Section 1350 Certification of Principal Executive Officer (and Principal Financial and Accounting Officer)

SIGNATURES

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

DATE: August 22, 2011	/s/ Michael Braunold Michael Braunold Chief Executive Officer (Principal Executive Officer and Principal Financial and Accounting Officer) and Director