FLEXPOINT SENSOR SYSTEMS INC
Form 10QSB
August 04, 2006

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

FORM 10-QSB

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For quarterly period ended June 30, 2006

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number: No. 0-24368

FLEXPOINT SENSOR SYSTEMS, INC.
(Exact name of small business issuer in its charter)

Delaware	87-0620425
(State of incorporation)	(I.R.S. Employer Identification No.)

106 West Business Park Drive, Draper, Utah 84020
(Address of principal executive offices)

801-568-5111
(Issuer's telephone number)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [X]

As of July 17, 2006, Flexpoint Sensor Systems, Inc. had a total of 22,992,887 shares of common stock issued and outstanding.

Transitional small business disclosure format: Yes [ ] No [X]

TABLE OF CONTENTS

PART I: FINANCIAL INFORMATION

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

The financial information set forth below with respect to our condensed consolidated financial position as of June 30, 2006, the condensed consolidated statements of operations for the three and six month periods ended June 30, 2006 and 2005, and the condensed consolidated statements of cash flows and stockholders' equity for the three and six month periods ended June 30, 2006 is unaudited. This financial information, in the opinion of management, includes all adjustments consisting of normal recurring entries necessary for the fair presentation of such data. The results of operations for the six month period ended June 30, 2006, are not necessarily indicative of results to be expected for any subsequent period.

FLEXPOINT SENSOR SYSTEMS, INC. AND SUBSIDIARIES
(A Development Stage Company)
Index to Financial Statements

FLEXPOINT SENSOR SYSTEMS, INC. AND SUBSIDIARIES
(A Development Stage Company)
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	June 30 2006	December 31 2005
ASSETS		
Current Assets		
Cash and cash equivalents	$ 1,371,987	$ 1,964,487
Accounts Receivable	4,550	-
Prepaid expenses	25,056	34,661
Total Current Assets	1,401,593	1,999,148
Long-Term deposits	6,500	6,500
Property and Equipment, net of accumulated depreciation of $287,730 and $205,640	1,158,577	1,238,404
Patents and Proprietary Technology, net of accumulated amortization of $341,151 and $264,667	1,627,200	1,703,683
Goodwill	5,356,414	5,356,414
Total Assets	$ 9,550,284	$ 10,304,149
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$ 4,202	$ 41,737
Accrued liabilities	38,532	43,325
Total Current Liabilities	42,734	85,062
Stockholders' Equity		
Preferred stock - $0.001 par value; 1,000,000 shares authorized; no shares issued or outstanding	-	-
Common stock - $0.001 par value; 100,000,000 shares authorized; 23,292,887 and 22,992,887 shares issued and outstanding	23,292	22,992
Additional paid-in capital	14,324,756	13,777,276
Warrants and options outstanding	2,891,738	2,699,565
Deficit accumulated during the development stage	(7,732,236)	(6,280,746)
Total Stockholders' Equity	9,507,550	10,219,087
Total Liabilities and Stockholders' Equity	$ 9,550,284	$ 10,304,149

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

FLEXPOINT SENSOR SYSTEMS, INC. AND SUBSIDIARIES
(A Development Stage Company)
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	For the Three Months Ended June 30, 2006	For the Three Months Ended June 30, 2005	For the Six Months Ended June 30, 2006	For the Six Months Ended June 30, 2005	Fo Pe Fe (Da fr th Ju
Design, Contract and Testing Revenue	$ 52,784	$ 2,087	$ 53,526	$ 18,365	$
Operating Costs and Expenses					
Amortization of patents and proprietary technology	(38,242)	(32,026)	(76,483)	(64,054)	
Cost of revenue	(1,819)	(7,418)	(2,184)	(89,597)	
Administrative and marketing expense	(795,515)	(379,140)	(1,218,994)	(647,045)	
Research and development expense	(124,796)	-	(231,777)	-	
Total Operating Costs and Expenses	(960,372)	(418,584)	(1,529,438)	(800,696)	
Other Income and Expenses					
Interest expense	-	(1,108)	-	(7,231)	
Interest income	11,222	24,526	22,478	29,044	
Sublease rent income	972	972	1,944	1,944	
Gain (loss) on forgiveness of debt	-	(5,000)	-	(5,000)	
Net Other Income (Expense)	12,194	19,390	24,422	18,757	
Net Loss	$ (895,394)	$ (397,107)	$ (1,451,490)	$ (763,574)	$
Basic and Diluted Loss Per Share	$ (0.04)	$ (0.02)	$ (0.06)	$ (0.03)	
Basic and Diluted Weighted-Average Common Shares Outstanding	22,999,554	22,974,537	22,997,887	22,208,079	

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

FLEXPOINT SENSOR SYSTEMS, INC. AND SUBSIDIARIES
(A Development Stage Company)
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE PERIOD FROM FEBRUARY 24, 2004 (DATE OF EMERGENCE FROM BANKRUPTCY) THROUGH DECEMBER 31, 2004, FOR THE YEAR ENDED DECEMBER 31, 2005, AND FOR THE SIX MONTHS ENDED JUNE 30, 2006
(UNAUDITED)

	Common Stock		Additional Paid-in Capital	Warrants and Options Outstanding	Deficit Accumulated During the Development Stage	Tota Stockho Equi
	Shares	Amount				
Balance - February 24, 2004 (Date of Emergence from Bankruptcy)	14,098,202	$ 14,098	$ 4,952,166	$ -	$ -	$ 4,96
Beneficial debt conversion option	-	-	1,500,000	-	-	1,50
Conversion of note payable, March 31 and May 19, 2004, $.50 per share	3,000,000	3,000	1,497,000	-	-	1,50
Issuance for consulting services, March 3, 2004, $1.15 per share	100,000	100	114,580	-	-	11
Stock based compensation from 650,000 warrants issued on March 3, 2004 for consulting services	-	-	-	731,328	-	73
Issuance for acquisition of equipment and proprietary technology from Flexpoint Holdings, LLC, a company controlled by a stockholder, March 31, 2004, $1.21 per share	1,600,000	1,600	1,929,709	-	-	1,93
Issuance for compensation November 24, 2004, $1.48 per share	1,200,000	1,200	1,774,800	-	-	1,77
Net loss	-	-	-	-	(4,510,726)	(4,51
Balance - December 31, 2004	19,998,202	19,998	11,768,255	731,328	(4,510,726)	8,00
Issuance of common stock at $.77 per share and 2,826,335 warrants at $0.61 per warrant for cash net of $347,294 cash offering costs and						

140,000 common shares and 140,000 warrants, January through March 2005	2,976,335	2,976	1,977,294	1,926,937	-	3,90
Issuance of 30,000 warrants at $1.38 per warrant for services rendered July 2005	-	-	-	41,300	-	4
Issuance of common stock at $ 1.73 per share, as compensation to director of company for services rendered, August 2005	18,350	18	31,727	-	-	3
Net loss	-	-	-	-	(1,770,020)	(1,77
Balance - December 31, 2005	22,992,887	22,992	13,777,276	2,699,565	(6,280,746)	10,21
Stock-based compensation from stock option to employees expensed through 06/30/06	-	-	-	529,953	-	52
Exercise of 300,000 warrants issued March 3, 2004 @ $0.70 per warrant by Summit Resource Group, Inc.	300,000	300	547,480	(337,780)	-	21
Net loss	-	-	-	-	(1,451,490)	(1,45
Balance - June 30, 2006	23,292,887	$ 23,292	$14,324,756	$2,891,738	$(7,732,236)	$ 9,50

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

6

FLEXPOINT SENSOR SYSTEMS, INC. AND SUBSIDIARIES
(A Development Stage Company)
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	For the Six Months Ended June 30, 2006	2005	For the Cumula Period from February 24, 2 (Date of Emerg from Bankruptc through June 30, 2006

Cash Flows from Operating Activities:			
Net loss	$ (1,451,490)	$ (763,304)	$ (7,732,236)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation	82,089	80,392	287,729
Amortization of patents and proprietary technology	76,483	75,771	341,150
Issuance of common stock and warrants for services	-	-	2,695,053
Expenses paid by increase in convertible note payable	-	-	60,000
Amortization of discount on note payable	-	-	1,556,666
Stock-based compensation expense for employees	529,953	-	529,953
Changes in operating assets and liabilities:			
Accounts receivable	(4,550)	(6,546)	(4,550)
Accounts payable	(37,535)	(100,370)	(203,904)
Accrued liabilities	(4,793)	23,109	36,040
Deferred revenue	-	-	(343,750)
Prepaid expenses	9,605	(8,398)	(25,056)
Deposits	-	-	(6,500)
Net Cash Used in Operating Activities	(800,238)	(699,346)	(2,809,405)
Cash Flows from Investing Activities:			
Payments for the purchase of equipment	(2,262)	(35,600)	(197,574)
Payments for patents	-	(15,658)	(43,626)
Payment for acquisition of equipment and proprietary technology from Flexpoint Holdings, LLC	-	-	(265,000)
Net Cash Used in Investing Activities	(2,262)	(51,258)	(506,200)
Cash Flows from Financing Activities:			
Net proceeds from issuance of common stock and warrants	210,000	3,907,207	4,117,207
Principal payments on notes payable - related parties	-	(409,958)	(460,300)
Proceeds from notes payable - related parties	-	-	445,300
Proceeds from borrowings under convertible note payable	-	-	583,334
Net Cash Provided By Financing Activities	210,000	3,497,249	4,685,541
Net Change in Cash and Cash Equivalents	(592,500)	2,746,645	1,369,936
Cash and Cash Equivalents at Beginning of Period	1,964,487	54,358	2,051
Cash and Cash Equivalents at End of Period	$ 1,371,987	$ 2,801,003	$ 1,371,987
Supplemental Cash flow Information:			
Cash paid for interest	$ -	$ 7,231	$ 16,888

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

FLEXPOINT SENSOR SYSTEMS, INC. AND SUBSIDIARIES
(A Development Stage Company)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Condensed Interim Financial Statements - The accompanying unaudited condensed consolidated financial statements include the accounts of Flexpoint Sensor Systems, Inc. and its subsidiaries (the "Company"). These financial statements are condensed and, therefore, do not include all disclosures normally required by accounting principles generally accepted in the United States of America. These statements should be read in conjunction with the most recent annual consolidated financial statements of Flexpoint Sensor Systems, Inc. and subsidiaries for the years ended December 31, 2005, included in the Company's Form 10-KSB filed with the Securities and Exchange Commission on March 15, 2006. In particular, The Company's significant accounting principles were presented as Note 1 to the Consolidated Financial Statements in that report. In the opinion of management, all adjustments necessary for a fair presentation have been included in the accompanying condensed consolidated financial statements and consist of only normal recurring adjustments. The results of operations presented in the accompanying condensed consolidated financial statements are not necessarily indicative of the results that may be expected for the full year ending December 31, 2006.

Nature of Operations - The Company is located in Salt Lake City, Utah and is a development stage company engaged principally in designing, engineering, and manufacturing sensor technology and equipment using flexible potentiometer technology. The Company is in the development stage as planned operations have not commenced. Development stage activities primarily include acquiring equipment and technology, organizing activities, obtaining financing and seeking manufacturing contracts. At June 30, 2006, the Company had not entered into any manufacturing agreements except as discussed in Note 4. Even though the Company is making strides forward with its business plan, it is likely that significant progress may not occur within the next four to six months. Accordingly, the Company may not realize significant revenues or become profitable within the next twelve months which would require additional financing to fund its long-term cash needs. The Company may be required to rely on debt financing, loans from related parties, and private placements of common stock for additional funding.

Valuation of Long-lived Assets - The carrying values of the Company's long-lived assets are reviewed for impairment annually and whenever events or changes in circumstances indicate that they may not be recoverable. When projections indicate that the carrying value of the long-lived asset is not recoverable, the carrying value is reduced by the estimated excess of the carrying value over the projected discounted cash flows. As a result of management's assessment of the recoverability of long-lived assets at June 30, 2006, no impairment was recognized at that date.

Research and Development - Research and development costs are recognized as expense during the period incurred until the conceptual formulation, design, and testing of a process is completed and the process has been determined to be commercially viable.

Stock Based Compensation - In December 2004, the FASB issued Statement No. 123 (Revised 2004), "Share-Based Payment" ("SFAS No.123R"). SFAS No. 123R supersedes APB 25 and requires the recognition of the cost of employee services received in exchange for stock options and awards of equity instruments based on the grant-date fair value of such options and awards, over the period they vest. Under APB 25, no compensation was recorded in earnings for the Company's stock-based options granted under the 2005 Stock Incentive Plan (the "Plan"). The pro forma effects on net income and earnings per share for the awards issued under the Plan were instead disclosed in a footnote to the financial statements. Under SFAS No. 123R, all share-based compensation is measured at the grant date, based on the fair value of the award, and is recognized as an expense in earnings over the requisite service period. On January 1, 2006, the Company adopted the provisions of SFAS No. 123R, for its share-based compensations plans and began recognizing the unvested portion of employee compensation from stock options and awards equal to the unamortized grant-date fair value over the remaining vesting period. Furthermore, compensation costs will also be recognized for any awards issued, modified, repurchased, or canceled after January 1, 2006.

Basic and Diluted Loss Per Share - Basic and diluted loss per share is computed by dividing net loss by the weighted-average number of common shares outstanding during the period. Diluted loss per share is computed by dividing net loss by the weighted-average number of common shares and common equivalents outstanding during the period. At June 30, 2006, there were warrants to purchase 3,356,335 shares of common stock. These warrants were not included in the computation of diluted loss per share as their effect would have been anti-dilutive, thereby decreasing loss per common share.

NOTE 2 - COMMON STOCK

Exercise of Warrants - On June 27, 2006, Summit Resource Group exercised its rights in connection with 300,000 warrants (originally issued March 3, 2004) to purchase 300,000 shares of common stock at an exercise price of $0.70 per share; or two hundred ten thousand dollars ($210,000), which money the Company received. These shares were registered in the Company's SB-2 Registration Statement and declared effective by the Securities and Exchange Commission on August 18, 2005.

Private Placement of Common Stock and Warrants - From January 25, 2005 through March 31, 2005, the Company issued 2,836,335 shares of common stock and warrants to purchase 2,836,335 shares of common stock at $3.00 per share from October 1, 2005 through September 30, 2007 in a private placement offering. The Company realized proceeds of $3,907,207, net of $347,294 of cash offering costs. As part of this private placement, the Company also issued the placement agent 140,000 shares of common stock and 140,000 warrants exercisable at $3.00 per share for the agent's services in connection with the offering. The fair value of the warrants issued was $4,047,816 as estimated by the Company using the Black-Scholes pricing model with the following assumptions: risk free interest rate of 4.58%; volatility of 200%; estimated life of two years; and dividend yield of 0%. The net proceeds were allocated to the shares of common stock and the warrants based upon their relative fair values and resulted in allocating $1,980,271 to the shares of common stock and $1,926,937 to the warrants.

An investor may not exercise their warrants if the exercise of the warrant would cause the investor to own more than 4.99% of the then issued and outstanding common stock of the Company. If the closing bid price of the Company's common stock is greater than $4.00 per share for five consecutive trading days after October 1, 2005, the Company may call the warrants, in whole or in part, for no consideration, which would require the investor to either exercise the warrants within fifteen trading days or forfeit the warrants.

Compensation to Board Members - On August 25, 2005, the company issued to a Director 18,350 shares of restricted common stock for director services valued at $31,745 or $1.73 per share, the quoted market value of the stock on the day of this transaction.

NOTE 3 - STOCK OPTION PLANS

On August 25, 2005, the Board of Directors of the Company approved and adopted the 2005 Stock Incentive Plan (the Plan). The Plan became effective upon its adoption by the Board and will continue in effect for ten years, unless terminated. This plan was approved by the stockholders of the Company on November 22, 2005. Under the Plan, the exercise price for all options issued will not be less than the average quoted closing market price of the Company's trading common stock for the thirty day period immediately preceding the grant date plus a premium of ten percent. The maximum aggregate number of shares that may be awarded under the plan is 2,500,000.

The Company utilized the Black-Scholes model for calculating the fair value pro forma disclosures under SFAS No. 123 and will continue to use this model, which is an acceptable valuation approach under SFAS No. 123R. This model requires the input of subjective assumptions, including the expected price volatility of the underlying stock. Projected data related to the expected volatility and expected life of stock options is based upon historical and other information, and notably, the Company's common stock has limited trading history. Changes in these subjective assumptions can materially affect the fair value of the estimate, and therefore, the existing valuation models do not provide a precise measure of the fair value of the Company's employee stock options.

On August 25, 2005 the Company granted options to employees to purchase an aggregate 1,159,000 shares of common stock at an exercise price of $1.91 per share. The options vest over three years on the employee's employment anniversary. The Company used the following assumptions in estimating the fair value of the options issued August 25, 2005: market value at time of issuance - $1.73; expected holding period - 8 years; risk-free interest rate - 4.18%; dividend yield - 0%; expected volatility - 200%; estimated forfeiture percentage - 0%. Using these assumptions, the options granted have a weighted average fair value of $1.723 per share.

On February 27, 2006 the Company granted options to employees to purchase an aggregate 75,000 shares of common stock at an exercise price of $2.07 per share. The options vest over three years on the employee's employment anniversary. The Company used the following assumptions in estimating the fair value of the options issued February 27, 2006: market value at time of issuance - $2.00; expected holding period - 7 years; risk-free interest rate - 4.26%; dividend yield - 0%; expected volatility - 200%; estimated forfeiture percentage - 0%. Using these assumptions, the options granted have a weighted average fair value of $1.986 per share.

During the six month period ended June 30, 2006, the Company recognized $529,953 of stock-based compensation expense. Information about all employee options outstanding is as follows:

For the Period Ending June 30, 2006	Shares	Weighted-average exercise price	2005 Shares	2005 Weighted-average exercise price
Outstanding at beginning of year	1,159,000	$ 1.91	-	$ -
Granted Jan-Jun 2006	75,000	2.07		
Outstanding at end of period	1,234,000	$ 1.92	1,159,000	$ 1.91

A summary of employee options outstanding and employee options exercisable under the Company's plan is set forth below:

	Outstanding			Exercisable	
Range of Exercise Prices	Number of Options Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number of Options Exercisable	Weighted-Average Exercise Price
$1.91 - $2.07	1,234,000	9.19	$ 1.92	274,000	$ 1.91

NOTE 4 - RELATED PARTY MANUFACTURING CONTRACT

In September 2005 the Company entered into a manufacturing agreement with R&D Products, LLC, a Utah limited liability company, doing business in Midvale, Utah. For the purpose of this contract, management considers R&D Products to be a Related Party because a controlling member of R&D Products, LLC is also a non-controlling interest shareholder of Flexpoint Sensor Systems, Inc. R&D Products has developed a mattress with multiple air chambers that use Bend Sensors(R) and the Company has agreed to manufacture the Bend Sensors(R) for the mattresses. The initial order is for 300,000 Bend Sensors(R) to be used to begin manufacture of 10,000 mattresses. The realization of the manufacturing and sales of the Bend Sensors(R) is dependent upon R&D Products selling either their bed directly or licensing their technology to a third party. There are no guarantees that R&D will make such sales in such quantities to meet the demands of this contract.

NOTE 5 - PATENT PROTECTION PROCEEDINGS

In January 2006, the Company filed a complaint in the United States District Court for the District of Utah in Salt Lake City against Michael W. Wallace for possible Patent encroachment.

In this report references to "Flexpoint Sensor," "we," "us," and "our" refer to Flexpoint Sensor Systems, Inc. and its subsidiary.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

The Securities and Exchange Commission ("SEC") encourages companies to disclose forward-looking information so that investors can better understand future prospects and make informed investment decisions. This report contains these types of statements. Words such as "may," "will," "expect," "believe," "anticipate," "estimate," "project," or "continue" or comparable terminology used in connection with any discussion of future operating results or financial performance identify forward-looking statements. You are cautioned not to place undue reliance on the forward-looking statements, which speak only as of the date of this report. All forward-looking statements reflect our present expectation of future events and are subject to a number of important factors and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS

EXECUTIVE OVERVIEW

We are a development stage company engaged principally in designing, engineering and manufacturing Bend Sensor(R) technology and equipment. Our planned operations have not commenced and our activities primarily include acquiring equipment and technology, organizing activities, obtaining financing and seeking manufacturing contracts.

During the past quarter we have focused our efforts on third party testing of our technology as required in our protocol for Stage II development of our technology. In June 2006 we announced our Pedestrian Impact Detection System was tested by MGA Research and this research confirmed results of our internal testing. This system is placed in the vehicles' front bumper to detect crash impact. Within milliseconds of contact, the system can differentiate between a human leg and an inanimate object and trigger a safety response in accordance with the manufacturer's specifications.

We also announced that we had entered into a cooperative testing agreement with Faurecia Automotive ("Faurecia") in June 2006. Faurecia is the second largest automotive supplier in Europe and it supplies components to large automotive manufacturers, such as BMW, Toyota, Ford, Daimler-Chrysler and others. This agreement will allow both companies to use their resources, knowledge and capabilities to develop a working prototype of the Pedestrian Impact Detection System.

Our production of the medical bed has been delayed as a result of waiting for a final design and configuration of the medical bed from R&D Products.

Flexpoint is prepared to produce the sensors under the terms of the agreement as soon as R&D Products determines the final design and configuration of the bed.

Negotiations for potential automotive applications using our Bend Sensors technology are in process, but we have not yet entered into a major contract for the sale of our automotive products. We are also continuing to develop new products that we may sell or license to an industrial control company.

Finalizing a major contract with a customer remains our greatest challenge. We must continue to obtain funding to operate and expand our operations so that we can deliver our product to the market. Management believes that even though we are making positive strides forward with our business plan, it is likely that significant progress may not occur for the next four to six months. Accordingly, we cannot guarantee that we will realize significant revenues or that we will become profitable within the next twelve months.

LIQUIDITY AND CAPITAL RESOURCES

Our revenues are not to a level to support our operations. Our revenues are primarily from design, contract and

testing services. For the past twelve months we have relied on proceeds from the private placement we completed in March 2005 to satisfy our cash shortfalls. We conducted the private placement during the first quarter of 2005 to raise funds for operations. We realized net proceeds of $3,907,207 from this private placement and as a result we have cash to continue our operations and business development. In this private placement we issued an aggregate of 2,836,335 units to purchasers and 140,000 units were issued to the placement agent. Each unit consisted of one share and one warrant to purchase one share at an exercise price of $3.00.

Management believes that our current cash burn rate is $150,000 per month and that the remaining proceeds from the private placement will fund our operations for at least the next six months. For the six month period ended June 30, 2006 ("2006 six month period") net cash used by operating activities was $800,238 compared to $699,346 for the six month period ended June 30, 2005 ("2005 six month period").

Another source of cash for the 2006 six month period was the exercise of warrants. On June 27, 2006, Summit Resource Group exercised warrants to purchase 300,000 common shares at an exercise price of $0.70 per share and we received $210,000 proceeds from the exercise of these warrants. We issued these warrants to Summit Resource Group on March 3, 2004, as part of a consulting agreement with that company to provide investor relations services. The underlying common shares were registered under a Form SB-2 registration statement declared effective August 18, 2005.

We may receive additional funds in the future from warrants issued in the private placement. If all of the warrants issued in the private placement are exercised, then we may realize an additional $8,929,005, based on an exercise price of $3.00 per warrant. Except for a "call" provision, the warrant holders have total discretion as to when or if the warrants are exercised. If the closing bid price of our common stock is greater than $4.00 per share for five consecutive trading days after October 1, 2005 and during the exercise term of the warrant, then we have the right to call the warrant in whole or in part, forcing the investor to exercise the warrant within fifteen trading days or the warrant is forfeited. We cannot guarantee that the price of our common stock will reach $4.00 and, in that case, the warrant holders will determine when and if the warrants are exercised.

We will require additional financing to fund our long-term cash needs and we may be required to rely on debt financing, loans from related parties, and private placements of our common stock for additional funding. However, we cannot assure you that we will be able to obtain financing, or that sources of financing, if any, will continue to be available, and if available, that they will be on terms favorable to us. We intend to use revenue and our cash to purchase and install equipment and develop our ISO/TS-16949 certified facility.

As we enter into new technology agreements in the future, we must ensure that those agreements provide adequate funding for any pre-production research and development and manufacturing costs. If we are successful in establishing agreements with adequate initial funding, management believes that our operations for the long term will be funded by revenues, licensing fees and royalties related to these agreements. However, we have formalized only a few additional agreements during the past year and there can be no assurance that agreements will come to fruition in the future or that a desired technological application can be brought to market.

COMMITMENTS AND CONTINGENCIES

Our principal commitments consist of total current liabilities of $42,734 at June 30, 2006, and our operating lease. The operating lease has average monthly payments of $8,718, including common area maintenance and a 2% annual increase. The total future minimum payments under this lease as of December 31, 2005 were $395,889.

Our total current liabilities include accounts payable of $4,202 related to normal operating expenses, including health insurance, utilities, production supplies and travel expense; also expenses for professional fees regarding audit fees and legal fees related to the defense of patent rights. Accrued liabilities at June 30, 2006, were $38,532 and were related to payroll tax liabilities, accrued audit and tax expenses, accrued lease expense and accrued Paid Time Off, a combination vacation-sick leave policy.

In January 2006 we initiated a legal action for patent encroachment and we anticipated that this legal action would result in legal costs of approximately $100,000; however, the cost of this action has been higher than anticipated and we now estimate that this legal action will result in legal costs of approximately $200,000. Management believes it is critical to protect our patents and will divert a portion of our financial resources to continue this legal matter.

OFF-BALANCE SHEET ARRANGEMENTS

None.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Estimates of particular significance in our financial statements include goodwill and the annual tests for impairment of goodwill and valuing stock option compensation.

We annually test goodwill for impairment or when a triggering event occurs. Impairment is indicated if undiscounted cash flows are less then the carrying value of the assets. The amount of impairment is measured using a discounted-cash-flows model considering future revenues, operating costs and risk-adjusted discount rate and other factors. We performed a goodwill impairment test during 2005 and concluded there was no impairment of goodwill.

We account for stock options under Statement of Financial Accounting Standards No. 123(R), effective January 1, 2006. Statement 123(R) requires that recognition of the cost of employee services received in exchange for stock options and awards of equity instruments be based on the grant-date fair value of such options and awards, over the period they vest. The fair value of the options we have granted is estimated at the date of grant using the Black-Scholes American option-pricing model. Option pricing models require the input of highly sensitive assumptions, including expected stock volatility. Also, our stock options have characteristics significantly different from those of traded options, and changes in the subjective input assumptions can materially affect the fair value estimate. Management believes the best input assumptions available were used to value the options and that the resulting option values are reasonable. During the 2006 first quarter we recognized $529,953 of stock-based compensation expense for our stock options.

RESULTS OF OPERATIONS

The following discussions are based on the consolidated operations of Flexpoint Sensor and its subsidiary, Sensitron, and should be read in conjunction with our unaudited financial statements the three and six month periods ended June 30, 2006 and 2005. These financial statements are included in this report at Part I, Item 1, above.

SUMMARY OPERATING RESULTS

	Three month period ended June 30, 2006	Three month period ended June 30, 2005	Six month period ended June 30, 2006	Six month period ended June 30, 2005
Revenue	$ 52,784	$ 2,087	$ 53,526	$ 18,365
Total operating costs and expenses	(960,372)	(418,584)	(1,529,438)	(800,696)
Net other income	12,194	19,390	24,422	18,757
Net loss	$ (895,394)	$ (397,107)	$ (1,451,490)	$ (763,574)
Basic and diluted loss per share	$ (0.04)	$ (0.02)	$ (0.06)	$ (0.03)

Revenue from research and development engineering contracts is recognized as the services are provided and accepted by the customer. Revenue from contracts to license technology to others is deferred until all conditions under the contract are met and then the sale is recognized as licensing royalty revenue over the remaining term of the contract. Revenue from the sale of a product is recorded at the time of shipment to the customer.

Our revenue for the 2006 and 2005 interim periods was from design, contract and testing services. The increase in revenue for the three month period ended June 30, 2006 (the "2006 second quarter") and for the 2006 six month period compared to the 2005 comparable periods was the result of increases in revenue from design engineering work. Management does not anticipate that revenues will increase until we finalize a major contract.

Total operating costs and expenses increased for the 2006 interim periods compared to the 2005 interim periods primarily as a result of increases in administrative and marketing expenses and research and development expense. Administrative and marketing expenses increased in the 2006 interim periods due to litigation fees and compensation expense recognized for share-based option compensation according to SFAS No. 123(R), discussed above. In addition, research and development expense increased in the 2006 interim periods as we moved forward with the Stage II development of our technology. Due to a change in account methodology we directly expensed research and development costs in the 2006 interim periods, rather than including them in cost of revenue.

Total other income for the 2006 and 2005 interim periods was primarily the result of interest income related to interest on the proceeds of the private placement offering which were deposited in a savings account. Interest expense for the 2005 interim periods was primarily the result of interest expense related to loans.

Due to minimal revenues and increased operating costs and expenses, we recorded a net loss for both the 2006 and 2005 interim periods. Management expects losses to continue in the short term.

SUMMARY BALANCE SHEET INFORMATION

The chart below presents a summary of our balance sheets at June 30, 2006, and December 31, 2005.

	June 30, 2006	December 31, 2005
Cash and cash equivalents	$ 1,371,987	$ 1,964,487
Total current assets	1,401,593	1,999,148
Total assets	9,550,284	10,304,149
Total current liabilities	42,734	85,062
Deficit accumulated during the development stage	(7,732,236)	(6,280,746)
Total stockholders equity	$ 9,507,550	$ 10,219,087

Cash and cash equivalents decreased 30.1% at June 30, 2006, compared to December 31, 2005 because we had minimal revenue in the 2006 six month period to provide cash. Until our revenue increases, our cash will continue to decrease.

Our non-current assets decreased at June 30, 2006, due to adjustments for depreciation and amortization. These assets include property and equipment valued at $1,158,577, patents and proprietary technology of $1,627,200, goodwill of $5,356,414, and long-term deposits of $6,500.

Total current liabilities decreased at June 30, 2006, primarily as a result of decreases in accounts payable and accrued liabilities.

Factors Affecting Future Performance

We have a history of losses and may never become profitable.

We are unable to fund our day-to-day operations from revenues and the lack of revenues for continued growth may cause us to delay our business development. For the 2006 six month period, we incurred a net loss of $1,451,490 and had negative cash flows from operating activities of $800,238. We anticipate proceeds from our private placement completed in March 2005 will fund our operations for at least the next six months; however, we expect that revenue will not increase until late 2006 or early 2007. In addition, if we decide to expand our business activities outside the automotive market in the next twelve months, we anticipate needing more than approximately $1,000,000 in additional funding.

We may not have adequate experience to successfully manage anticipated growth.

In January 2005 we restructured our management team and brought in an experienced group of executive level management personnel to direct the growth of our business operations. However, we may not be equipped to successfully manage any possible future periods of rapid growth or expansion, which could be expected to place a significant strain on our managerial, operating, financial and other resources. Our future performance will depend, in part, on our ability to manage growth effectively, which will require us to:

.. improve existing, and implement new, financial controls and systems, management information systems, operating, administrative, financial and accounting systems and controls,
.. maintain close coordination between engineering, programming, accounting, finance, marketing, sales and operations, and
.. attract and retain additional qualified technical and marketing personnel.

There is intense competition for management, technical and marketing personnel in our business. The loss of the services of any of our key employees or our failure to attract and retain additional key employees could have a material adverse effect on our ability to continue as a going concern.

We may not have adequate manufacturing capacity to meet anticipated manufacturing contracts.

Based on projected business development, we will need to complete a second production line and have it installed and approved in 2008. The second manufacturing line is expected to result in increased manufacturing capacity and manufacturing efficiencies. We have completed installation of our first production line and are in the process of qualifying our own manufacturing facility for ISO/TS-16949 certification. However, we cannot assure you that we will satisfy ISO/TS-16949 qualification or that the production lines will produce product in the volumes required or that the production lines will satisfy the requirements of our customers.

Our success is dependent on our intellectual property rights which are difficult to protect.

Our future success depends on our ability to protect our intellectual property. We use a combination of patents and other intellectual property arrangements to protect our intellectual property. There can be no assurance that the protection provided by our patents will be broad enough to prevent competitors from introducing similar products or that our patents, if challenged, will be upheld by courts of any jurisdiction. Patent infringement litigation, either to enforce our patents or defend ourselves from infringement suits, will be expensive and could divert our resources from other planned uses. Patent applications filed in foreign countries and patents in these countries are subject to laws and procedures that differ from those in the U.S. and may not be as favorable to us. We also attempt to protect

our confidential information through the use of confidentiality agreements and by limiting access to our facilities. There can be no assurance that our program of patents, confidentiality agreements and restricted access to our facilities will be sufficient to protect our confidential information from competitors.

Research and development may result in problems which may become insurmountable to full implementation of production.

Customers request that we create prototypes and perform pre-production research and development. As a result, we are exposed to the risk that we may find problems in our designs that are insurmountable to fulfill production. In that event, we will be unable to recover the costs of the pre-production research and development. However, we are currently unaware of any insurmountable problems with ongoing research and development that may prevent further development of an application.

Our products must satisfy governmental regulations in order to be marketable

During the past several years, the automotive industry has been subject to increased government safety regulation. Among other things, proposed regulations from the National Highway Transportation and Safety Administration required automakers to incorporate advanced air bag technology into vehicles beginning in 2005 with the phase-in to be completed by 2008. Our products may not meet the proposed National Highway Transportation and Safety Administration standards or the standards may be modified. These proposals call for upgraded air bag system performance tests for passenger cars and light trucks. The new testing requirements are intended to improve the safety of infants, children and out-of-position adults, and maximize the protection of properly seated adults. The National Highway Transportation and Safety Administration tests are similar to conditions that we have already been using to test our Seat Mat System and we believe that our Seat Mat System will meet the standards as proposed. In addition, automakers may react to these proposals and the uncertainty surrounding these proposals by curtailing or deferring investments in new technology, including our Bend Sensor(R) technology, until final regulatory action is taken. We cannot predict what impact, if any, these proposals or reforms might have on our financial condition and results of operations.

Because we are significantly smaller than the majority of our competitors, we may lack the financial resources needed to capture increased market share.

The market for sensor devices is extremely competitive, and we expect that competition will intensify in the future. There can be no assurance that we will be able to compete successfully against current or future competitors or that competitive pressures we face will not materially adversely affect our business, operating results or financial condition. Our primary competitors in the air bag market are International Electronics and Engineering, Siemens, Robert Bosch GmbH, Denso, Inc., Breed Technologies, TRW Automotive, Delphi Corporation, Autoliv Inc., Takata and Temic. We believe that none of our competitors have a product that is superior to our Bend Sensor(R) technology at this time. However, many of our competitors and potential competitors have substantially greater financial, technical and marketing resources, larger customer bases, longer operating histories, greater name recognition and more established relationships than we do. These competitors may be able to undertake more extensive marketing campaigns, adopt more aggressive pricing policies and devote substantially more resources to developing new products and markets than we can.

Ongoing industry consolidation among worldwide automotive parts suppliers and financial difficulties of U.S. auto makers may limit the market potential for our products.

In the automotive parts industry, there is a trend of consolidation through business combinations and acquisitions of complementary technologies among worldwide suppliers as these suppliers seek to build stronger customer relationships with automobile manufacturers. Automobile manufacturers look to Tier 1 suppliers (major suppliers) to provide fully engineered systems and pre-assembled combinations of components rather than individual components. This trend of consolidation of suppliers may result in fewer Tier 1 suppliers and thus limit the marketing opportunities for our Bend Sensor(R) technology. In addition, in recent months large U.S. auto makers

have announced plans to close plants and reduce their work force, some Tier 1 suppliers are in bankruptcy or in financial difficulty, and two automobile manufacturers have reported increased financial difficulties. These industry trends may limit the market for our products.

ITEM 3. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our filings under the Exchange Act is recorded, processed, summarized and reported within the periods specified in the rules and forms of the SEC. This information is accumulated and communicated to our executive officers to allow timely decisions regarding required disclosure.

Our Chief Executive Officer and our Chairman of the Board who acts in the capacity of our principal financial officer evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, they concluded that our disclosure controls and procedures were effective.

Also, these executive officers determined that there were no changes made in our internal controls over financial reporting during the second quarter of 2006 that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 6. EXHIBITS

Part I Exhibits

No.	Description.
31.1	Chief Executive Officer Certification
31.2	Principal Financial Officer Certification
32.1	Section 1350 Certification

Part II Exhibits

No.	Description.
2.1	Order Confirming Plan, dated February 24, 2004 (Incorporated by reference to exhibit 2.1 for Form 8-K filed March 5, 2004)
2.2	Debtor's Plan of Reorganization, dated January 14, 2004 (Incorporated by reference to exhibit 2.2 for Form 8-K filed March 5, 2004)
2.3	Asset Purchase Agreement between Flexpoint Sensor and Flexpoint Holdings, LLC, dated March 31, 2004 (Incorporated by reference to exhibit 2.3 of Form 10-QSB, filed May 3, 2004)
3.1	Certificate of Incorporation of Flexpoint Sensor, as amended
3.2	Bylaws of Flexpoint Sensor, as amended (Incorporated by reference to exhibit 3.4 of Form 10-QSB, filed May 3, 2004)
4.1	Common stock purchase warrant of Investors Stock Daily, Inc., dated July 26, 2005 (Incorporated by reference to exhibit 4.1 to Form 10-KSB filed March 15, 2006)
10.1	Lease Agreement between Flexpoint Sensor and F.G.B.P., L.L.C., dated July 12, 2004 (Incorporated by reference to exhibit 10.2 of Form 10-QSB, filed November 15, 2004, as amended)
10.2	Consulting Agreement between Flexpoint Sensor and Summit Resource Group, dated March 3, 2004 (Incorporated by reference to exhibit 10.3 of Form 10-QSB, filed May 3, 2004)
10.3	Manufacturing Agreement between Flexpoint Sensor and R&D Products, Inc., dated September 28, 2005 (Incorporated by reference to exhibit 10.1 of Form 8-K, filed October 3, 2005)
20.1	Flexpoint Sensor Systems, Inc. 2005 Stock Incentive Plan (Incorporated by reference to Schedule 14A, filed October 27, 2005)
20.2	Audit Committee Charter (Incorporated by reference to Schedule 14A, filed October 27, 2005)
21.1	Subsidiaries of Flexpoint Sensor Systems, Inc. (Incorporated by reference to exhibit 21.1 to Form 10-KSB filed March 15, 2006)

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, who are duly authorized.

FLEXPOINT SENSOR SYSTEMS, INC.

Date: August 3, 2006

/s/ Clark M. Mower
____
Clark M. Mower
President, Chief Executive Officer and Director

Date: August 3, 2006

/s/ John A. Sindt
____
John A. Sindt
Chairman of the Board
Principal Financial and Accounting Officer

Date: August 3, 2006

/s/ B. Fred Atkinson, Jr.
____
B. Fred Atkinson, Jr.
Secretary/Treasurer and Comptroller