FLEXPOINT SENSOR SYSTEMS INC
Form 10-Q
August 15, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

[X]

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

For quarterly period ended June 30, 2016

[ ]

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: No. 0-24368

FLEXPOINT SENSOR SYSTEMS, INC.

(Exact name of registrant as specified 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

(Registrant s telephone number)

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

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

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

Large accelerated filer	[ ]	Accelerated filer	[ ]
Non-accelerated filer	[ ]	Smaller reporting company	[X]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.

Yes [ ]   No [X]

The number of shares outstanding of the registrant s common stock was 71,627,114 as of August 15, 2016.

1

TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION

ITEM 1. CONDENSED FINANCIAL STATEMENTS

The financial information set forth below with respect to our condensed consolidated financial position as of June 30, 2016, the condensed consolidated statements of operations for the three and six months ended June 30, 2016 and 2015, and cash flows for the six months ended June 30, 2016 and 2015 are unaudited. The information presented below for the condensed consolidated financial position as of December 31, 2015 was audited and reported as part of our annual filing of our Form 10-K, filed with Securities and Exchange Commission on April 14, 2016. The results of operations for the three and six months ended June 30, 2016 and 2015, respectively, are not necessarily indicative of results to be expected for any subsequent periods.

FLEXPOINT SENSOR SYSTEMS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2016 (Unaudited)	December 31, 2015
ASSETS		
Current Assets		
Cash and cash equivalents	$ 2,772	$ 22,706
Accounts receivable, net of allowance for bad debts of $7,140 and $7,140	184,084	98,557
Notes receivable	90,613	86,806
Deposits and prepaid expenses	9,324	11,949
Total Current Assets	286,793	220,018
Long-Term Deposits	6,550	6,550
Property and Equipment, net of accumulated depreciation of $586,394 and $586,394	-	-
Patents and Proprietary Technology, net of accumulated amortization of $839,190 and $793,103	133,205	179,292
Goodwill	4,896,917	4,896,917
Total Assets	$ 5,323,465	$ 5,302,777
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$ 168,382	$ 160,437
Accounts payable - related party	838	322
Accrued liabilities	598,004	375,244
Convertible notes payable , net of discount of $414,581 and $763,352	643,876	45,105
Convertible notes payable - related party	40,000	40,000
Total Liabilities	1,451,100	621,108
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; 71,627,114 shares and 71,627,114 shares issued and outstanding	71,627	71,627

Stock subscription payable	10,958	9,958
Additional paid-in capital	28,643,263	28,569,711
Accumulated deficit	(24,853,483)	(23,969,627)
Total Stockholders' Equity	3,872,365	4,681,669
Total Liabilities and Stockholders' Equity	$ 5,323,465	$ 5,302,777

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

FLEXPOINT SENSOR SYSTEMS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

	For the Three Months Ended June 30, 2016	For the Three Months Ended June 30, 2015	For the Six Months Ended June 30, 2016	For the Six Months Ended June 30, 2015
Design, Contract and Testing Revenue	$ 93,039	$ 48,469	$ 128,205	$ 80,469
Operating Costs and Expenses				
Amortization of patents and proprietary proprietary technology	22,346	24,634	46,087	50,219
Cost of revenue	1,166	1,191	2,510	4,018
Administrative and marketing expense	175,935	151,969	353,356	313,678
Research and development expense	79,281	66,222	159,340	132,642
Total Operating Costs and Expenses	278,728	244,016	561,293	500,557
Net Operating Loss	(185,689)	(195,547)	(433,088)	(420,088)
Other Income and Expenses				
Interest expense	(230,707)	(252,836)	(454,598)	(394,374)
Interest income	1,915	2,543	3,830	2,558
Loss on extinguishment of debt	--	--	--	(168,286)
Gain on stock debt exchange	--	--	--	55,661
Net Other Income (Expense)	(228,792)	(250,293)	(450,768)	(504,441)
Net Loss	$ (414,481)	$ (445,840)	$ (883,856)	$ (924,529)
Basic and Diluted Loss per Common Share	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.02)

Basic and Diluted Weighted-Average Common Shares Outstanding	71,627,114	58,827,114	71,627,114	58,348,661

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

FLEXPOINT SENSOR SYSTEMS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	For the Six Months Ended June 30,	
	2016	**2015**
Cash Flows from Operating Activities:		
Net loss	$ (883,856)	$ (924,529)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock subscription for compensation	1,000	--
Stock-based compensation expense	16,802	--
Amortization of patents and proprietary technology	46,087	50,219
Amortization of discount on note payable	405,521	337,209
Loss on extinguishment of debt	--	168,286
Gain on conversion of notes payable to common stock	--	(55,661)
Changes in operating assets and liabilities:		
Accounts receivable	(85,527)	(10,245)
Deposits and prepaid expenses	2,625	(29)
Accounts payable	7,943	(9,051)
Accounts payable related parties	516	3,783
Accrued liabilities	186,892	172,082
Net Cash Used in Operating Activities	(301,997)	(267,936)
Cash Flows from Investing Activities:		
Note receivable interest income	(3,807)	(2,528)
Payment for note receivable	--	(51,157)
Payments for patents	--	(2,181)
Net Cash Used in Investing Activities	(3,807)	(55,866)
Cash Flows from Financing Activities:		
Proceeds from bank overdrafts	35,870	--
Proceeds from borrowings under note payable	--	51,000
Proceeds from borrowings under convertible note payable	250,000	260,000
Net Cash Provided by Financing Activities	285,870	311,000
Net Change in Cash and Cash Equivalents	(19,934)	(12,802)
Cash and Cash Equivalents at Beginning of Period	22,706	18,307
Cash and Cash Equivalents at End of Period	$ 2,772	$ 5,505

Supplemental Cash Flow Information:				
Cash paid for income taxes	$	--	$	--
Cash paid for interest	$	--	$	--
Supplemental Disclosure on Noncash Investing and Financing Activities				
Common stock issued for debt conversion	$	--	$	305,073
Convertible notes issued and debt discount relieved in debt extinguishment	$	--	$	1,079,453
Recognition of discounts on convertible notes payable	$	56,750	$	1,149,048

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

FLEXPOINT SENSOR SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Condensed Consolidated 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. Therefore, these statements should be read in conjunction with the most recent annual consolidated financial statements of Flexpoint Sensor Systems, Inc. and subsidiaries for the year ended December 31, 2015 included in the Company s Form 10-K filed with the Securities and Exchange Commission on April 14, 2016. 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, 2016.

Nature of Operations The Company is located near Salt Lake City, in Draper, Utah and is a company engaged principally in designing, engineering, and manufacturing sensor technology products and equipment using Bend Sensors® flexible potentiometer technology. The Company suffered losses of $883,856 and $924,529 and used cash in operating activities of $301,997 and $267,936 during the six months ended June 30, 2016 and 2015, respectively. Through June 30, 2016, the Company had an accumulated deficit of $24,853,483. These matters raise doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might result should the Company be unable to continue as a going concern.

Cash and Cash Equivalents Cash and cash equivalents are considered to be cash and highly liquid securities with original maturities of three months or less. The cash and equivalents of $2,772 at June 30, 2016 and $22,706 at December 31, 2015 represent cash on deposit in various bank accounts with a financial institution.

Fair Value of Financial Instruments - The carrying amounts reported in the balance sheets for accounts receivable, accounts payable and accrued liabilities approximate fair value because of the immediate or short-term nature of these financial instruments. The carrying amounts reported for notes payable approximate fair value because the underlying instruments are at interest rates that approximate current market rates.

Accounts Receivable Trade accounts receivable are recorded at the time product is shipped or services are provided, including any shipping and handling fees, and are shown net of the allowance for bad debts. Due to the limited amount of transactions, collectability of the trade receivables is reasonably assured. While the Company has historically experienced very minimal bad debts it felt it prudent to create an allowance for doubtful accounts to provide for any risk associated with bad debts on current receivables.

Most contracts associated with design and development engineering require a deposit of up to 50% of the quoted price of the initial phase of such contracts prior to the commencement of work. As the Company completes each phase or milestone of such a contract additional funding is normally required from the customer. These deposits are considered deferred income until each phase or milestone is completed and accepted by the customer, at which time the agreed upon price for that particular phase of the contract is billed to the customer and the deposit applied.

Inventories Inventories are stated at the lower of cost or market. Cost is determined by using the first in, first out (FIFO) method. Inventories consist of raw materials.

Property and Equipment Property and equipment are stated at cost. Additions and major improvements are capitalized while maintenance and repairs are charged to operations. Upon trade-in, sale, or retirement of property and equipment, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is recognized.

FLEXPOINT SENSOR SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Valuation of Long-lived Assets The carrying values of the Company s long-lived assets are reviewed for impairment quarterly 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. The Company s analysis did not indicate any impairment of assets as of June 30, 2016.

Intangible Assets Costs to obtain or develop patents are capitalized and amortized over the remaining life of the patents, and technology rights are amortized over their estimated useful lives. The Company currently has the rights to several patents and proprietary technology. Patents and technology are amortized from the date the Company acquires or is awarded the patent or technology rights, over their estimated useful lives, which range from 5 to 15 years. An impairment charge is recognized if the carrying amount is not recoverable and the carrying amount exceeds the fair value of the intangible assets as determined by projected discounted net future cash flows. The Company s analysis did not indicate any impairment of intangible assets as of June 30, 2016.

Research and Development Research and development costs are recognized as an 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.

Goodwill Goodwill represents the excess of the Company s reorganization value over the fair value of net assets of the Company upon emergence from bankruptcy. Goodwill is not amortized, but is tested for impairment annually, or when a triggering event occurs. As described in ASC 360, the Company has adopted the two step goodwill impairment analysis that includes quantitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. A fair-value-based test is applied at the overall Company level. The test compares the estimated fair value of the Company at the date of the analysis to the carrying value of its net assets. The analysis also requires various judgments and estimates, including general and macroeconomic conditions, industry and the Company s targeted market conditions, as well as relevant entity-specific events; such as a change in the market for the Company s products and services. After considering the qualitative factors that would indicate a need for interim impairment of goodwill and applying the two-step process described in ASC 360, management has determined that the value of Company s assets is not more likely than not less than the carrying value of the Company including goodwill, and that no impairment charge needs be recognized during the reporting periods.

Revenue Recognition Revenue is recognized when persuasive evidence of an arrangement exists, services have been provided or goods delivered, the price to the buyer is fixed or determinable and collectability is reasonably assured. Revenue from the sale of products is recorded at the time of shipment to the customers. 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 contracts are met and then recognized as licensing royalty revenue over the remaining term of the contracts.

Stock-Based Compensation Under ASC Topic 718, Stock Compensation, the Company is required to recognize 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.

Basic and Diluted Loss Per Share Basic loss per share is computed by dividing net loss by the weighted-average number of common shares outstanding during the period. Diluted earnings per share is computed by dividing net loss by the weighted-average number of common shares and dilutive potential common shares outstanding during the period. At June 30, 2016, there were outstanding common share equivalents (options and convertible notes payable) which amounted to 21,648,704 shares of common stock. These common stock equivalents were not included in the computation of diluted loss as their effect would be anti-dilutive. Other convertible notes and options- related exercise prices were less than the average market price of the common stock.

Concentrations and Credit Risk - The Company has a major customer who represents a significant portion of revenue, accounts receivable and notes receivable. During the six months ended June 30, 2016, the customer represented 13% of sales and represents 55% of accounts receivable and 100% of notes receivable at June 30, 2016.

FLEXPOINT SENSOR SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

The Company has a strong relationship with this customer and does not believe this concentration poses a significant risk, as their products are based entirely on the Company s technologies. The Company has the option, under one of the notes receivable, to convert the principal and interest into equity of the customer.

Recent Accounting Pronouncements - In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update ("ASU") 2016-02, L*eases.* This ASU requires lessees to put most leases on their balance sheets but recognize expenses in the income statement in a manner similar to current accounting treatment. This ASU changes the guidance on sale-leaseback transactions, initial direct costs and lease execution costs, and, for lessors, modifies the classification criteria and the accounting for sales-type and direct financing leases. For public business entities, this ASU is effective for annual periods beginning after December 15, 2018, and interim periods therein. Entities are required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. The Company is currently evaluating the impact of this ASU on its financial statements and disclosures.

In March 2016, the FASB issued ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting*. This ASU simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The guidance is effective for fiscal years beginning after December 15, 2016, although early adoption is permitted. The Company is currently evaluating the impact of this ASU on its financial statements and disclosures.

The Company has reviewed all other recently issued, but not yet adopted, accounting standards in order to determine their effects, if any, on its consolidated results of operation, financial position and cash flows. Based on that review, the Company believes that none of these pronouncements will have a significant effect on its current or future earnings or operations.

NOTE 2 NOTES RECEIVABLE

On June 23, 2010, the Company, along with David B. Beck, the Company's Director of Engineering, filed a complaint against R&D Products, LLC, Persimmon Investments, Inc. and Jules A. deGreef, the managing member of R&D

Products, LLC. The complaint alleged that all of the intellectual properties owned by R&D Products and Mr. deGreef, specifically patented applications using Bend Sensor® technology that were filed jointly by Mr. Beck and Mr. deGreef, and later assigned solely to Mr. deGreef and R&D Products, are the property of the Company. The assignment by Mr. Beck of his rights in the patents and intellectual properties were improperly given and are the property of the Company. The Company believed that since Mr. Beck was an employee of the Company during the time that he became the primary creative force and inventor of the Bend Sensor® applications for R&D Products and Mr. deGreef, and the inventions and applications were created using Flexpoint resources, the Company claimed that such intellectual properties, patents, etc. filed by deGreef, Persimmon and R&D belong to Flexpoint and therefore is sought financial damages and ownership of all intellectual rights, patents and inventions created by Mr. Beck for deGreef, Persimmon and R&D Products.

On April 9, 2013, the parties of the above referenced litigation reached a favorable universal settlement agreement that reinforces the Company's rights to the intellectual properties and their related products, including the medical bed. In order to secure the Company had exclusive rights to all patents and intellectual properties associated with this litigation the Company advanced to Mr. deGreef $25,000 to bring current all of the filing and maintenance fees for the patents detailed in the law suit. The advance is secured by a promissory note with an annual interest rate of 10% to be paid no later than December 31, 2015. The Company is currently evaluating actions it should take relative to this note receivable which is in default.

On April 1, 2015, the Company paid $51,157 for the assumption and assignment of a convertible promissory note receivable issued by Bend Tech, LLC (Bend Tech ; one of the Company s customers see also Note 1, ***(Concentrations and Credit Risk***) and held by a third-party Bend Tech investor (the Investor). The note bears interest at the rate of 10% per annum and had a maturity date of April 1, 2015. The agreement allows the holder, at its option, to convert the note to a 5% ownership of Bend Tech. The Company elected to take assignment of those conversion rights, reaching an agreement with the Investor to pay the principal and interest to the Investor at the due date. Bend Tech is expected to become a more significant customer of the Company as it begins its product

FLEXPOINT SENSOR SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

introductions, and the Company elected to pay off the note and put itself in position to either receive the payment plus interest or convert the note into ownership of Bend Tech rather than have an outside investor make such conversion. As of the date of this report, the note is in default and the Company has not exercised its conversion option.

NOTE 3 CONVERTIBLE NOTES PAYABLE

Convertible Notes Payable

During 2015, the Company secured additional financing to cover its ongoing operations in the amount of $590,000 by issuing various convertible notes bearing 10% annual interest (15% default interest), secured by business assets and carrying exercise prices ranging between $0.025 and $0.07 per share. Additionally during 2015, the Company issued $51,000 for a non-convertible note payable bearing 10% annual interest (15% default interest) and secured by the $51,157 note receivable held by the Company (see Note 2). During 2015, all of these notes (both convertible and non-convertible issued in 2014 and 2015) and accrued interest were either converted into common stock or extinguished and consolidated into two remaining convertible notes payable to two investors in principal amounts of $684,660 and $123,797 (with respective maturity dates of December 31, 2016 and November 30, 2016). Both notes are convertible at $0.05 per share, bear 10% annual interest rates (15% default interest) and are secured by business assets.

On January 20, 2016, the Company entered into a promissory convertible note with Capital Communications LLC for up to $300,000 which is expected to be funded in tranches of $50,000 for each of the six months thereafter. Accordingly, on January 26, 2016, February 26, 2016, March 31, 2016, April 29, 2016 and June 10, 2016, the Company received proceeds for an aggregate total of $250,000 from Capital Communications LLC. The note has an annual interest rate of 10% and is secured by the Company's business equipment. The principal amount of the note, and all accrued interest is due and payable on or before December 31, 2016 and each note has a conversion feature for restricted common shares at $0.06 per share.

The fair value of the common stock at the date of the January 26, 2016 advance was $70,000, which created a Beneficial Conversion Feature (BCF) of $20,000. The BCF was recorded as a debt discount and is being amortized over the life of the note. The debt discount remaining as of June 30, 2016 was $10,909.

The fair value of the common stock at the date of the February 26, 2016 advance was $90,000, which created a BCF of $40,000. The BCF was recorded as a debt discount and is being amortized over the life of the note. The debt discount remaining as of June 30, 2016 was $24,000.

The fair value of the common stock at the date of the March 31, 2016 advance was $60,000, which created a BCF of $10,000. The BCF was recorded as a debt discount and is being amortized over the life of the note. The debt discount remaining as of June 30, 2016 was $6,667.

No BCF was created relative to the advance on April 29, 2016.

The fair value of the common stock at the date of the June 20, 2016 advance was $60,000, which created a BCF of $10,000. The BCF was recorded as a debt discount and is being amortized over the life of the note. The debt discount remaining as of June 30, 2016 was $8,501.

At June 30, 2016, the Convertible Notes Payable principal is $1,098,457, the unamortized discount is $414,581 and interest accrued and unpaid is $72,351. The Company recorded interest expense of $405,521 during the six months ended June 30, 2016 as it amortized the discount charges generated by the issuance of convertible notes payable.

Convertible Note Payable Related Party

On August 8, 2011, the Company entered into a convertible note payable with a Company Director for $40,000. This note is due on December 31, 2015, bears an annual interest rate of 10% annual interest (15% default interest) and is secured by business equipment.

FLEXPOINT SENSOR SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

NOTE 4 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 at their annual meeting of shareholders 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 shares. The Company continues to utilize the Black-Scholes option-pricing model for calculating the fair value of the options granted as defined by ASC Topic 718, which is an acceptable valuation approach under ASC 718. This model requires the input of subjective assumptions, including the expected price volatility of the underlying stock.

On August 24, 2015, the Board of Directors approved the issuance of options to purchase 2,185,000 shares of the Company s common stock. Of the total issued, 1,960,000 options were issued to replace options held by directors and employees which were to expire and 225,000 options were issued to new employees. Of the options issued, 640,000 have an option price of $0.14 per share, 900,000 have an option price of $0.15 per share, 595,000 have an option price of $0.20 per share, and 50,000 have an option price of $0.25 per share. Options issued as replacement shall have immediate vesting terms. Options which are not replacements shall vest over a two year four month period in equal installments on the last day of 2015, 2016 and 2017, respectively. We relied on an exemption from the registration requirements provided by Section 4(a)(2) of the Securities Act.

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. Between August 25, 2005 and December 31, 2015, the Company granted options to employees to purchase an aggregate 3,096,000 shares of common stock at exercise prices ranging from $0.14 to $2.07 per share. The options vest over three years and expire 10 years from the date of grant. The Company used the following assumptions in estimating the fair value of the options granted:

.

Market value at the time of issuance Range of $0.14 to 2.07

.

Expected term Range of 3.7 years to 10.0 years

.

Risk-free interest rate Range of 1.60% to 4.93%

.

Dividend yield 0%

.

Expected volatility 200% to 424%

.

Weighted-average fair value - $0.16 to $2.07

As of the six months ended June 30, 2016 and the year ended December 31, 2005, the Company recognized a total of $2,406,586 of stock-based compensation expense, leaving $29,296 in unrecognized expense as of June 30, 2016. There were 2,185,000 and 2,185,000 employee stock options outstanding at June 30, 2016 and December 31, 2015, respectively.

A summary of all employee options outstanding and exercisable under the plan as of June 30, 2016, and changes during the six months then ended is set forth below:

FLEXPOINT SENSOR SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Options	Shares	Weighted Average Exercise Price		Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value	
Outstanding at the beginning of period	2,185,000	$	0.16	9.66	$	--
Granted	--		--	--		--
Expired	--		--	--		--
Forfeited	--		--	--		--
Outstanding at the end of Period	2,185,000	$	0.16	9.16	$	--
Exercisable at the end of Period	1,755,000	$	0.15	9.16	$	--

NOTE 5 CAPITAL STOCK

Preferred Stock There are 1,000,000 shares of preferred stock with a par value of $0.001 per share authorized. At June 30, 2016 and December 31, 2015, there were no shares of preferred stock issued or outstanding.

Common Stock There are 100,000,000 shares of common stock with a par value of $0.001 per share authorized. No shares of stock were issued during the six months ended June 30, 2016.

On January 12, 2015, the Board of Directors approved the conversion of $165,000 in convertible notes held by Capital Communications LLC, plus $33,023 in interest accrued and unpaid, to 2,800,000 shares of restricted common stock at an average conversion price of $0.07 per share

On January 20, 2015, the Board of Directors approved the conversion of $135,000 in convertible notes held by Empire Fund Managers, plus $23,760 in interest accrued and unpaid, to 2,650,000 shares of restricted common stock at an average conversion price of $0.06 per share.

In October 2015, the Board of Directors approved the issuance of 3,400,000 shares of restricted common stock to extinguish $330,000 in accrued liabilities arising from investor relations services, at an average price of $0.084 per share.

In November and December 2015, the Board of Directors approved the conversion of $470,000 in convertible notes to 9,400,000 shares of restricted common stock.

NOTE 6 - COMMITMENTS AND CONTINGENCIES

The Company currently occupies a manufacturing facility in Draper, Utah. The lease on the facility expired on December 31, 2014, at which time the Company entered into a three year extension which will expire on December 31, 2017. Either party may terminate the lease upon 90 day written notice. Under the terms of the lease the Company paid $8,950 per month in 2015 (the same rate as in 2014), and will pay $9,300 per month in 2016 and $9,600 per month in 2017.

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 shareholder of Flexpoint Sensor Systems, Inc. R&D Products has developed a mattress with multiple air chambers that uses the Company s Bend Sensor® and the Company has entered into an agreement to manufacture the Bend Sensors® for R&D s specific mattress use. The initial order is for 30,000 Bend Sensors® to be used to begin manufacture of 1,000 mattresses. During 2007 and 2008 R&D Products deposited with Flexpoint the sum of $100,000 to begin work on the initial production order of 20 commercial beds. Additional revenue from this

FLEXPOINT SENSOR SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

contract is dependent upon R&D Products selling either their bed technology directly or licensing their technology to a third party.

On September 11, 2008 R&D Products, LLC entered into a long-term Licensing Agreement for their bed technology with a major medical solutions provider (Licensee). The Agreement provides the Licensee the exclusive world wide rights to R&D s patented medical bed technology. On that same day the Company, R&D Products and the Licensee entered into a long-term joint manufacturing agreement for R&D s medical bed technology and related products. The manufacturing agreement allows for the Company to manufacture sensors for the bed technology and related medical products through 2018 with an option to renew each year thereafter. Production schedules with specific quantities and deadlines are still being outlined. (See Note 2). At this time management is unsure the effect their litigation with R&D will have on this agreement with R&D or its Licensee.

The Company is currently evaluating actions it should take relative to the notes receivable referenced in Note 2, which are in default.

NOTE 7 RELATED PARTY TRANSACTIONS

At June 30, 2016 and December 31, 2015, the Company had accounts payable of $838 and $322 to its Chief Executive Office for reimbursement of various operating expenses paid by him in the course of business.

NOTE 8 - SUBSEQUENT EVENTS

On July 1, 2016 the Company drew $50,000 against a convertible promissory note for up to $300,000 from a third party, the proceeds of which will be used to fund operating expenses. The note has an annual interest rate of 10% and is secured by the Company s equipment. The note has a conversion feature for restricted common shares at $0.06 per share and a maturity date of December 31, 2016.

The Company entered into a new convertible promissory note for up to $300,000 from a third party on July 1, 2016. The note has an annual interest rate of 10% and is secured by the Company s equipment. The note has a conversion feature for restricted common shares at $0.07 per share and a maturity date of December 31, 2016. On August 11, 2016 the Company drew $40,000 against that note.

Also on July 1, 2016 the Company issued a promissory note for $10,000 to an officer. The note bears interest at the rate of 10%, has a conversion feature for restricted common shares at $0.06 per share and a maturity date of December 31, 2016.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

In this quarterly report references to Flexpoint", "the Company," we, us, and our refer to Flexpoint Sensor Systems, Inc. and its subsidiaries.

FORWARD LOOKING STATEMENTS

The U.S. Securities and Exchange Commission (SEC) encourages reporting 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, expect, believe, anticipate, estimate, project, or 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 OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

EXECUTIVE OVERVIEW

Flexpoint Sensor Systems, Inc. is an innovative technology firm specializing in developing products that feature the Company s patented Bend Sensor® and related technology. The Bend Sensor® is a groundbreaking sensing solution that is revolutionizing applications in the automobile, safety, medical and industrial industries. The Bend Sensor s single-layer, thin film construction cuts costs and mechanical bulk while introducing a range of functions and stylistic design possibilities that have never before been available in sensing technology. We currently own six patents and through our research and development, efforts are in the process of filing for more that include fully integrated products being sold and supplied to our limited customer base. We have also jointly developing additional commercially viable products, including a universal sensor that will be used in the automotive, medical and industrial industries.

Our marketing efforts for the balance of 2016 will concentrate on those projects that we believe can be brought to market in the shortest period of time. Approximately one year ago we announced the hiring of Mr. Paul Sexauer as our Vice President of Sales and Marketing with the intent of accelerating the introduction of our products into multiple markets. Since the hiring of Mr. Sexauer the Company has streamlined its efforts to work directly with customers, expand sales pipelines and finalize deals. We anticipate introducing additional products featuring our patented Bend Sensor® technology into the market during the last half of 2016, including products in the medical, sport shoe, residential home care and industrial control industries.

We have experienced continued growth during the first half of 2016. In January 2016 the Company announced that we had entered into a contract to co-develop a specialized Industrial Internet of Things (IIOT) application with a specialty equipment manufacturer in the energy industry. The customer designs, manufacturers and maintains special use equipment employed by hundreds of power companies to produce electricity and fulfill the real-time demands of the grid.

In February 2016 we partnered with HTK Engineering, LLC, (HTK) on the go-to-market strategy development and sales execution of HTK s anti-rollaway safety system. Rollaways occur weekly across a multitude of industries causing significant property damage and, in some cases personal injury and loss of life. In March 2016 the Company entered into a controls and distribution agreement with New Eagle, who will serve as the primary supplier of controller systems (hardware and software) for the patented BrakeAlert system developed by HTK. The HTK system features Flexpoint s custom Bend Sensor®. The Company and HTK Safety have entered into a strategic sales relationship with Harris Groups. Harris Groups will utilize its connections in the truck and automobile industries to provide sales channels for our products.

In April 2016 we started full scale production for a number of different toy models expected to begin in June 2016. That schedule has been delayed but we expect annualized sensor order volumes to be between 750,000 and 1,000,000 units in 2016, with significant annual increases thereafter.

By April 2016 we were receiving increasing frequent orders from repeat customers as well as orders from new customers from around the world and across a number of industries. We experienced an increase in deliverables, increases in revenue, and a decrease in net loss per share. We successfully met key milestones and deliverables for a turnkey design/development contract with an automaker, for which the Company received nearly $65,000. Work continues to move forward on that project which is scheduled to be completed in the fourth quarter of 2016.

The Company announced a strategic partnership for the development of technology to allow computers to have any shape or form through flexible displays and other non-flat display technologies. It is anticipated that the actuation of these technologies may be enabled in large part through the integration of next generation materials, the Flexpoint Bend Sensor® technology and advanced power and electronics designs/techniques.

In June 2016 we announced the commercialization and launch of Gloreha® Sinfonia, an advanced next generation medical rehabilitation suite of products. These products will have broad use in hospitals, physical therapy centers, physician offices, as well as in patients homes.

In July 2016 we announced that Bend Sensor® has been chosen by numerous global virtual reality (VR) market leaders to help power their innovative VR platforms. Manus VR recently has entered the VR market with a revolutionary VR glove which features the Bend Sensor®. We believe that the Manus VR glove will revolutionize the traditional consumer gaming market. We are excited to be a part of this VR revolution.

Our patented technology continues to gain recognition in various markets and industries as evidenced by the recent receipt of an initial production order from CPS Color Equipment S.p.A Italy and orders from a Fortune 100 automotive maker for our horn system. Although, so far the volumes for our applications and devises have been relatively small we continue to receive follow up orders for the universal sensor that we jointly developed last year. We expect to receive additional orders from other customers for this sensor as it becomes more recognizable in the market. Currently, our customers for this type of sensor include companies in the following industries: automobiles, trucking, emergency vehicles, public transportation, military and other governmental entities. As anticipated, the Company is beginning to see the potential for more significant volumes and revenues from the sale of this sensing devise over the next year and beyond.

While developing new types of products for our Bend Sensor® technologies we continue to receive small repeat production orders from existing customers. We have made improvements on our initial prototype for a Home Monitoring Presence Detection System using our Bend Sensor® technologies and have received development and design orders from various industries. We have continued to work with market makers and Tier I automotive suppliers in the U.S and Europe on numerous applications for our sensors and devises. Based upon our discussions within the automotive industry in the U.S. and Europe our unique sensor systems meet the requirements for manufacturers to have lighter weight, more fuel efficient cars. Our Bend Sensor® is lighter in weight, has fewer moving parts than conventional sensing devices, is more versatile and, due to its unique design, is more cost effective. Product and design changes in the automotive industry are slow, averaging two to three years before actually being incorporated into a commercially viable automotive platform. Because of our recent work with several Tier 1 suppliers, we have shown the Bend Sensor® to be viable as the next generation of sensing devises to the industry. Due to the advanced technology of the Bend Sensor® and its versatility of applications, we anticipate being a part of the evolution taking place in the automotive, energy and technological industries.

Finalizing additional long-term revenue generating production contracts with other customers remains our greatest challenge because our on-going business is dependent on the types of revenues and cash flows generated by such contracts. Cash flow and cash requirement risks are closely tied to, and are dependent upon, our ability to attract significant long-term production contracts. In the short term, we must continue to obtain funding to operate and expand our operations so that we can deliver our unique Bend Sensor® and Bend Sensor® related technologies and products to the market. Management believes that even though we have made positive strides forward with our business plan, it is likely that significant progress may not occur for the next three to six months, primarily due to the time it takes for negotiating such contracts. Accordingly, we cannot guarantee that we will realize significant revenues or that we will become profitable over the next six to nine months.

LIQUIDITY AND CAPITAL RESOURCES

Our revenue is primarily from design, contract, testing and limited production services and is not to a level to support our operations. Management anticipates that we may not realize significant revenue within the next three to nine months.

Management believes that our current cash burn rate is approximately $60,000 per month and the proceeds from the convertible notes and our engineering and design fees will not totally fund our anticipated growth in operations. We will therefore need to raise additional financing. We believe that this additional financing will provide the needed capital to extend operations to the development and production of our growing product offerings and growing manufacturing opportunities. However, we may not be able to obtain financing, or the sources of financing, if any, may not continue to be available, and if available, they may be on terms unfavorable to us.

As we enter into production and development agreements, we must ensure that those agreements provide adequate funding for any pre-production research and manufacturing costs. As 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/or royalties related to these agreements. However, other than the recent development agreement with Bend Tech that we believe will provide future revenues, we have not formalized any additional agreements during the past year and there can be no assurance that the agreements we currently have will come to fruition in the near future or that a desired technological application can be brought to market on a commercially viable basis.

FINANCIAL OBLIGATIONS AND CONTINGENT LIABILITIES

Our principal commitments at June 30, 2016 consisted of our operating lease of $9,300 per month, and total liabilities of $1,451,100, which includes $643,876 of convertible notes payable, net of discounts of $414,581. Accrued liabilities at June 30, 2016, were $474,318 and were related to payroll, payroll tax liabilities, accrued professional expenses, accrued insurance expense, accrued interest expense on notes and accrued paid time off.

During the six months ending June 30, 2016, the Company has raised an additional $250,000 in operating capital through the issuance of short-term notes. The notes have an annual interest rate of 10% and a default rate of 15% annually. The notes, which total $1,058,457, are secured by the Company s business equipment and have a conversion feature for restricted common shares at $0.05 and $0.06 per share with maturity dates of November 30 and December 31, 2016.

The Company has a major customer, Bend Tech, who represents a significant portion of revenue, accounts receivable and notes receivable. During the six months ended June 30, 2016, the customer represented 13% of sales, represents 55% of accounts receivable and 100% of notes receivable at June 30, 2016. The Company has a strong relationship with this customer and does not believe this concentration poses a significant risk, as their products are based entirely on the Company s technologies. The Company has the option, under one of the notes receivable, to convert the principal and interest into equity of the customer.

On July 1, 2016 the Company drew $50,000 against a convertible promissory note for up to $300,000 from a third party, the proceeds of which will be used to fund operating expenses. The note has an annual interest rate of 10% and is secured by the Company s equipment. The note has a conversion feature for restricted common shares at $0.06 per share and a maturity date of December 31, 2016.

The Company entered into a new convertible promissory note for up to $300,000 from a third part on July 1, 2016. The note has an annual interest rate of 10% and is secured by the Company s equipment. The note has a conversion feature for restricted common shares at $0.07 per share and a maturity date of December 31, 2016. On August 11, 2016 the Company drew $40,000 against that note.

Also on July 1, 2016 the Company issued a promissory note for $10,000 to Clark Mower, our President. The note bears interest at the rate of 10%, has a conversion feature for restricted common shares at $0.06 per share and a maturity date of December 31, 2016.

OFF-BALANCE SHEET ARRANGEMENTS

Other than our current operating lease, we have not entered into any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources and would be considered material to investors.

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 long-lived assets and valuing stock option compensation.

The Company's goodwill represents the excess of its reorganization value over the fair value of the net assets upon emergence from bankruptcy. Goodwill is not amortized, therefore we test our goodwill for impairment annually or when a triggering event occur using a fair value approach. A fair value based test is applied at the overall Company level. The test compares the fair value of the Company to the carrying value of its nets assets. The test requires various judgments and estimates. During 2015 and for the six months ending June 30, 2016, the Company recorded no impairment charge to reduce the carrying value of the goodwill to its estimated fair value. As part of the impairment testing, the Company considered factors such as the global market volatility, variables in the economy, and the overall uncertainty in the markets which has resulted in a decline in the market price of the Company's stock price and market capitalization for a sustained period, as indicators for potential goodwill impairment. Based upon our analysis for the impairment test for the year ended December 31, 2015, which compared the carrying value of the Company's net assets to the estimated fair value of the overall Company, and the present values of projected net cash flows of the Company over the next three years, no impairment was recognized during the six months ended June 30, 2016.

We test long-lived assets for impairment annually or when a triggering event occurs. Impairment is indicated if undiscounted cash flows are less than 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. The analysis compares the present value of projected net cash flows for the remaining current year and next two years against the carrying value of the long-lived assets. If the carrying values of the long lives assets exceed the present value of the discounted projected revenues an impairment expense would be recognized in the period and the carrying value of the assets would be adjusted accordingly. Under similar analysis no impairment charge was taken during the six month period ended June 30, 2016. Impairment tests will be conducted on an annual basis and, should they indicate a carrying value in excess of fair value, additional charges may be required.

Financial accounting standards require 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 and is recognized as an expense in operations 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. For the six month periods ended June 30, 2016 and 2015 we recognized $17,061 and $0, respectively, of stock-based compensation expense for our stock options and there is no additional unrecognized compensation cost related to employee stock options at the current time.

RESULTS OF OPERATIONS

The following discussions are based on the consolidated operations of Flexpoint Sensor Systems, Inc. and should be read in conjunction with our unaudited financial statements for the three and six months ended June 30, 2016 and 2015, included in Part I, Item 1, above, and the audited financial statements included in the Company s annual report on Form 10-K for the years ended December 31, 2015 and 2014.

THREE MONTH PERIOD ENDED JUNE 30, 2016:

SUMMARY OF OPERATING RESULTS

	Three month period ended	
	June 30, 2016	June 30, 2015
Design, contract and testing revenue	$ 93,039	$ 48,469
Total operating costs and expenses	278,728	244,016
Net other income (expense)	(228,792)	(250,293)
Net loss	(414,481)	(445,840)
Basic and diluted loss per common share	(0.01)	(0.01)

For the three months ending June 30, 2016 revenue was $93,039, a $44,570 increase when compared to the same period in 2015. The majority of the revenue for this period came from billable engineering services and production of sensors. The Company continues to concentrate its marketing resources on a limited number of customers that have the greatest potential to generate the most short-term revenue while still building relationships with our larger customers. Management believes this approach has the highest potential to bring long-term commercially viable products to market and will provide sustainable cash flow to fund the Company's operations in the future. Currently, overall revenues are not sufficient to sustain our operations. Management anticipates that revenues will increase as we continue to execute our long-term business plan and cultivate larger customer bases with our existing product offering. However, until a long-term production contract is in place there is no guarantee that our current customer base will order in sufficient volumes to sustain our operations. Therefore, management continues to work with larger companies and industries and is hopeful that in the near future we will sign a long-term licensing or manufacturing contract.

We received revenue from design contract, development engineering, limited new production and repeat orders from our existing customers. 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.

Of the $278,728 and $244,016 total operating costs and expense for the three months ending June 30, 2016 and 2015, respectively, $79,281 and $66,222 were for direct research and development cost, respectively. For the three months ended June 30, 2016, total operating expenses increased by $34,712 when compared to the same period in 2015, due primarily to the addition of our Vice-President of Sales and another engineer to assist in product development.

Other expense for the three month period ended June 30, 2016 was $228,792, a $21,501 decrease compared to the same period in 2015. The decrease is attributable to the beneficial conversion charges on the convertible notes.

A net loss of $414,481 was realized for the three months ended June 30, 2016. A net loss of $445,840 was realized for the three month period ended June 30, 2015.

SIX MONTH PERIOD ENDED JUNE 30, 2016:

SUMMARY OF OPERATING RESULTS

Six month period ended

	June 30, 2016	June 30, 2015
Design, contract and testing revenue	$ 128,205	$ 80,469
Total operating costs and expenses	561,293	500,557
Net other income (expense)	(450,768)	(504,441)
Net loss	(883,856)	(924,529)
Basic and diluted loss per common share	(0.01)	(0.02)

For the six months ending June 30, 2016 revenue was $128,205, a $47,736 increase when compared to the same period in 2015. The majority of the revenue for this period came from billable engineering services. The Company continues to concentrate its marketing resources on a limited number of customers that have the greatest potential to generate the most short-term revenue while still building relationships with our larger customers. Management believes this approach has the highest potential to bring long-term commercially viable products to market and will provide sustainable cash flow to fund the Company's operations in the future. Currently, overall revenues are not sufficient to sustain our operations. Management anticipates that revenues will increase as we continue to execute our long-term business plan and cultivate larger customer bases with our existing product offering. However, until a long-term production contract is in place there is no guarantee that our current customer base will order in sufficient volumes to sustain our operations. Therefore, management continues to work with larger companies and industries and is hopeful that in the near future we will sign a long-term licensing or manufacturing contract.

We received revenue from design contract, development engineering, limited new production and repeat orders from our existing customers. 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.

Of the $561,293 and $500,557 total operating costs and expense for the six months ending June 30, 2016 and 2015, respectively, $159,340 and $132,642 were for direct research and development cost, respectively. For the six months ended June 30, 2016, total operating expenses increased by $60,736 when compared to the same period in 2015, due primarily to the addition of our Vice-President of Sales and another engineer to assist in product development.

Other expense for the six month period ended June 30, 2016 was $450,768, a $53,763 decrease compared to the same period in 2015. The decrease is attributable to the beneficial conversion charges on the convertible notes.

A net loss of $883,856 was realized for the six months ended June 30, 2016. A net loss of $924,529 was realized for the six month period ended June 30, 2015.

The chart below represents a summary of our condensed consolidated balance sheets at June 30, 2016 and December 31, 2015.

SUMMARY OF BALANCE SHEET INFORMATION

	June 30, 2016	December 31, 2015
Cash and cash equivalents	$ 2,772	$ 22,706
Total current assets	286,793	220,018
Total assets	5,323,465	5,302,777
Total liabilities	1,451,100	621,108
Deficit accumulated	(24,853,483)	(23,969,627)
Total stockholder s equity	$ 3,872,365	$ 4,681,669

Cash and cash equivalents decreased by $19,934 at June 30, 2016 compared to December 31, 2015. The decrease in cash is due to the timing of payment of expenses, collection of accounts receivable and proceeds from borrowings. Our non-current assets decreased at June 30, 2016 due to the amortization of long-lived assets.

Total liabilities increased by $829,992 at June 30, 2016; the increase was primarily due to the funding of operations through the issuance of convertible notes payable, the accrued interest related to those notes, and accruals for investor relations and insurance expenses.

INFLATION

We do not expect the impact of inflation on our operations to be significant for the next twelve months.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable to smaller reporting companies.

ITEM 4. CONTROLS AND PROCEDURES

(a)

Disclosure Controls and Procedures

As of the end of the period covered by this quarterly report, under the supervision and with the participation of our Chief Executive Officer and Principal Financial Officer, we carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures. Our Chief Executive Officer and Principal Financial Officer evaluated whether information required to be disclosed is recorded, processed, summarized and reported within the specified periods, and is accumulated and communicated to management to allow for timely decisions regarding required disclosure of material information required to be included in our periodic Securities and Exchange Commission reports. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives and our Chief Executive Officer and Principal Financial Officer have concluded that our disclosure controls and procedures were effective for the six-month period ending June 30, 2016.

(b)

Changes in Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). Management reviewed our internal controls over financial reporting, and there have been no changes in our internal controls over financial reporting for the six month period ended June 30, 2016 that have materially affected, or are likely to affect, our internal controls over financial reporting.

PART II - OTHER INFORMATION

ITEM 1A. RISK FACTORS

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 six months ending June 30, 2016, we had negative cash flows from operating activities of $301,997. We will require additional financing to fund our short-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 that additional funding. Such funding sources may not be available or the terms of such funding sources may not be acceptable to the company. If the Company is unable to find such funding it could have a material adverse effect on our ability to continue as a going concern.

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

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.

<u>We may not have adequate manufacturing capacity to meet anticipated manufacturing contracts.</u>

We have completed installation of our first manufacturing line; however, our agreement with the Walker Group will allow us to delay installation and approval of a second production line. The second manufacturing line will be needed as a result of anticipated increased manufacturing demand and improved manufacturing efficiencies. We anticipate qualifying our manufacturing facility for ISO/TS-16949 certification as the Company successfully obtains additional manufacturing contracts during the coming year. 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 automotive customers.

<u>Our success is dependent on our intellectual property rights which are difficult to protect.</u>

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 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 and intellectual properties from our 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 would 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.

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® 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® technology

---

ITEM 6. EXHIBITS

Part I Exhibits

No.	Description
31.1	Certification of Clark M. Mower pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Clark M. Mower pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley

Part II Exhibits

No.	Description
3.1	Certificate of Incorporation of Flexpoint Sensor, as amended (Incorporated by reference to exhibit 3.1 for Form 10-QSB, filed August 4, 2006)
3.2	Bylaws of Flexpoint Sensor, as amended (Incorporated by reference to exhibit 3.4 of Form 10-QSB, filed May 3, 2004)
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	Addendum to Lease Agreement between Flexpoint Sensor and American Covers, Inc., dated March 29, 2012 (Incorporated by reference to exhibit 10.2 of Form 10-QSB, filed May 15, 2012)
10.3	Addendum to Lease Agreement between Flexpoint Sensor and Handstands, dated January 1, 2015. (Incorporated by reference to exhibit 10.3 of Form 10-K, filed April 14, 2016)
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Label Linkbase Document
101.PRE	XBRL Taxonomy Presentation Linkbase Document

21

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 is duly authorized.

FLEXPOINT SENSOR SYSTEMS, INC.

Date: August 15, 2016

/s/ Clark M. Mower

Clark M. Mower

President, Chief Executive Officer and Director,

Principal Financial Officer