

Edgar Filing: SPO Medical Inc - Form 10QSB

SPO Medical Inc
Form 10QSB
May 22, 2006

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB

MARK ONE

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the Quarterly Period ended March 31, 2006; or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from _____ to _____

COMMISSION FILE NUMBER: 0-11772

SPO MEDICAL INC.

(Exact name of small business issuer as specified in its charter)

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

21860 BURBANK BLVD., NORTH BUILDING, SUITE 380
Woodland Hills, CA 91367
(Address of principal executive offices, including zip code)

818-888-4380
(Issuer's telephone number, including area code)

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 No

Indicate by a check mark whether the registrant is a shell company (as defined in Rule 1b-2 of the Exchange Act). Yes No .

As of May 18, 2006, SPO Medical Inc. had outstanding 17,529,433 shares of common stock, par value \$0.01 per share.

Transitional Small Business Disclosure Format (Check one) Yes No

INDEX PAGE
PART I -- FINANCIAL INFORMATION

	PAGE
Forward Looking Statements	(ii)
Item 1 - Financial Statements	
Consolidated Balance Sheet March 31, 2006 (unaudited) and December 31, 2005	1

Edgar Filing: SPO Medical Inc - Form 10QSB

Unaudited Consolidated Statements of Operations for three months ended March 31, 2006 and 2005	2
Unaudited Consolidated Statements of Changes in Shareholders' Deficiency	3
Unaudited Consolidated Statements of Cash Flows for the three months ended March 31, 2006 and 2005	4
Notes to Consolidated Financial Statements	5
Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations	7
Item 3 - Controls and Procedures	11
PART II -- OTHER INFORMATION	
Item 1 - Legal Proceedings	11
Item 2 - Unregistered Sales of Equity Securities and Use of Proceeds	11
Item 3 - Defaults upon Senior Securities	11
Item 4 - Submission of Matters to a Vote of Security Holders	12
Item 5 - Other Information	12
Item 6 - Exhibits	12

SIGNATURES

FORWARD LOOKING STATEMENTS

The following discussion and explanations should be read in conjunction with the financial statements and related notes contained elsewhere in this quarterly report on Form 10-QSB. Certain statements made in this discussion are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by terminology such as "may", "will", "should", "expects", "intends", "anticipates", "believes", "estimates", "predicts", or "continue" or the negative of these terms or other comparable terminology and include, without limitation, statements below regarding: the Company's intended business plans; expectations as to product performance; intentions to acquire or develop other technologies; and belief as to the sufficiency of cash reserves. Because forward-looking statements involve risks and uncertainties, there are important factors that could cause actual results to differ materially from those expressed or implied by these forward-looking statements. Although the Company believes that expectations reflected in the forward-looking statements are reasonable, it cannot guarantee future results, performance or achievements. Moreover, neither the Company nor any other person assumes responsibility for the accuracy and completeness of these forward-looking statements. The Company is under no duty to update any forward-looking statements after the date of this report to conform such statements to actual results.

(ii)

Edgar Filing: SPO Medical Inc - Form 10QSB

SPO MEDICAL INC.
AND ITS SUBSIDIARY

CONDENSED INTERIM CONSOLIDATED BALANCE SHEET

U.S. DOLLARS IN THOUSANDS

MARCH 31, 2006
UNAUDITED

ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 606
Trade receivables	318
Other accounts receivable and prepaid expenses	52
Inventories	552

	\$ 1,528
LONG-TERM INVESTMENTS	
Deposits	11
Severance pay fund	136

	147
PROPERTY AND EQUIPMENT, NET	75

TOTAL ASSETS	\$ 1,750
LIABILITIES AND SHAREHOLDERS' DEFICIENCY	
CURRENT LIABILITIES	
Short-term loans	\$ 825
Short-term convertible loans	651
Trade payables	349
Employees and payroll accruals	177
Other payables and accrued expenses	472

	2,474
LONG-TERM LIABILITIES	
Long term loans	104
Accrued severance pay	261

	365
STOCKHOLDERS' DEFICIENCY	
Stock capital	175
Additional paid-in capital	5,458
Payments on account of shares	485
Accumulated deficit	(7,207)

	(1,089)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIENCY	\$ 1,750
	=====

Edgar Filing: SPO Medical Inc - Form 10QSB

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

1

SPO MEDICAL INC.
AND ITS SUBSIDIARY

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS

U.S. DOLLARS IN THOUSANDS EXCEPT SHARE DATA

	THREE MONTHS ENDED MARCH 31,	
	2006	2005
	UNAUDITED,	
REVENUES	\$ 701	\$ 373
Cost of revenues	352	154
	349	219
Gross profit		
Operating expenses		
Research and development, net	170	97
Selling and marketing	141	112
General and administrative	220	106
Merger expenses	-	37
	531	352
Total operating expenses		
OPERATING LOSS	182	133
Financial expenses, net	939	58
	1,121	\$191
LOSS FOR THE PERIOD		
Basic and diluted loss per ordinary share	\$ (0.06)	\$ (0.06)
Weighted average number of shares outstanding used in computation of basic and diluted loss per share	18,382,715	3,210,032

Edgar Filing: SPO Medical Inc - Form 10QSB

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

2

SPO MEDICAL INC. AND ITS SUBSIDIARY

CONDENSED STATEMENTS OF CHANGES IN SHAREHOLDERS DEFICIENCY

U.S. DOLLARS IN THOUSANDS

	SHARE CAPITAL	ADDITIONAL PAID-IN CAPITAL	DEFERRED COMPENSATION	PAYMEN ACCOU SHA
	-----	-----	-----	-----
BALANCE AS OF JANUARY 1, 2004	\$ 501	\$ 927	\$ -	\$
Issuance of ordinary shares to consultants	99	1,272		
Stock-based compensation related to options granted to employee		283		
Stock-based compensation related to warrant granted to lender		78		
Beneficial conversion feature of convertible notes		115		
Net Loss				
	-----	-----	-----	-----
BALANCE AS OF DECEMBER 31, 2004	600	2,675	-	
Issuance of ordinary shares upon conversion of loans	35	224		
Warrants issued in private placements		949		
Warrants issued in connection with loans		22		
Deferred stock-based compensation related to options granted to employees and consultants		762	(762)	
Amortization of deferred Stock-based compensation related to options granted to employees			187	
Amortization of deferred Stock-based compensation related to options granted to consultants			348	
Reverse merger transaction and forward split of issued share capital	(465)	201		
Net Loss				
	-----	-----	-----	-----
BALANCE AS OF DECEMBER 31, 2005	170	4,833	(227)	
Deferred compensation reclassified due to FAS 123R implementation for the first time		(227)	227	
Warrants issued in connection with loan		66		
Deferred stock-based compensation related to options granted to consultant		746		
Exercise of warrants by consultant	5			
Amortization of deferred Stock-based compensation related to options granted to employees		40		
Payments on account of shares				
Net Loss				
	-----	-----	-----	-----

Edgar Filing: SPO Medical Inc - Form 10QSB

BALANCE AS OF MARCH 31, 2006	\$ 175	\$ 5,458	\$ -	\$
	-----	-----	-----	-----

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

3

SPO MEDICAL INC.
AND ITS SUBSIDIARY

CONDENSED INTERIM STATEMENTS OF CASH FLOWS

U.S. DOLLARS IN THOUSANDS

		THREE MONTHS ENDED MARCH 31,	
		----- 2006 -----	-----
		UNAUDITED,	-----
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss for the period	\$	(1,121)	\$
Adjustments to reconcile loss to net cash used in operating activities:			
Depreciation		7	
Stock-based compensation expenses		950	
Decrease in accrued severance pay, net		(4)	
Increase in accrued interest payable on loans		35	
Changes in assets and liabilities:			
Increase in trade receivables		(119)	
Decrease (increase) in other receivables		(10)	
Increase in inventories		(92)	
Increase (decrease) in accounts payable		124	
Decrease in other payables and accrued expenses		(40)	
Net cash used in operating activities		----- (270)	
CASH FLOWS FROM INVESTING ACTIVITIES			
Increase in short-term investments		(1)	
Purchase of property and equipment		(34)	
Net cash used in investing activities		----- (35)	
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of stock capital		5	
Receipt of short-term loans		150	
Receipt of long-term loans		-	

Edgar Filing: SPO Medical Inc - Form 10QSB

Repayment of short-term loans	(222)	
Receipt of payments on account of shares	485	
	-----	-----
Net cash provided by financing activities	418	
Increase in cash and cash equivalents	113	
Cash and cash equivalents at the beginning of the period	493	
Cash and cash equivalents at the end of the period	\$ 606	\$
	=====	=====
NON CASH TRANSACTIONS		
Conversion of short term loans	\$ -	\$
	=====	=====

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

4

NOTE 1 - BASIS OF PRESENTATION

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

The accompanying financial statements included in this report for the periods prior to the Acquisition Transaction are the financial statements of SPO Ltd. The Company and its subsidiary, SPO Ltd., are collectively referred to as the "Company".

The accompanying un-audited condensed consolidated interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and the instructions to Form 10-QSB and Article 10 of Regulation S-X. These financial statements reflect all adjustments, consisting of normal recurring adjustments and accruals, which are, in the opinion of management, necessary for a fair presentation of the financial position of the Company as of March 31, 2006 and the results of operations and cash flows for the interim periods indicated in conformity with generally accepted accounting principles applicable to interim periods. Accordingly, certain information and footnote disclosures normally

Edgar Filing: SPO Medical Inc - Form 10QSB

included in annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. Operating results for the three months ended March 31, 2006, are not necessarily indicative of the results that may be expected for the year ended December 31, 2006.

NOTE 2 -GOING CONCERN

As reflected in the accompanying financial statements, the Company's operations for the three months ended March 31, 2006, resulted in a net loss of \$1,121 and the Company's balance sheet reflects a net stockholders' deficit of \$1,090. The Company's ability to continue operating as a "going concern" is dependent on its ability to raise sufficient additional working capital. Management's plans in this regard include raising additional cash from current and potential stockholders and lenders and increasing the marketing of its current and new products.

NOTE 3 - STOCK-BASED COMPENSATION

In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123(R). SFAS No. 123(R) requires employee share-based equity awards to be accounted for under the fair value method, and eliminates the ability to account for these instruments under the intrinsic value method prescribed by APB Opinion No. 25 and allowed under the original provisions of SFAS No. 123. SFAS No. 123(R) requires the use of an option pricing model for estimating fair value, which is then amortized to expense over the service periods. If we had adopted SFAS 123(R) in prior periods, the impact of that standard would have approximated the impact of SFAS 123 as described in the disclosure of pro forma net income and income per share above. SFAS No. 123(R) allows for either prospective recognition of compensation expense or retrospective recognition. In the first quarter of 2006, we began to apply the prospective recognition method and implemented the provisions of SFAS No. 123(R). In January 2005, the SEC issued SAB No. 107, which provides supplemental implementation guidance for SFAS No. 123(R). SFAS No. 123(R) became effective as of January 1, 2006.

5

NOTE 4:- NOTE

On February 1, 2005 the Company borrowed the principal amount of \$150. This loan bears interest at an annual rate of prime plus 4% and is repayable in four equal installments every three calendar months through January 31, 2007. The Company issued to the holder of this indebtedness a three-year warrant to purchase up to 60,000 shares of Common Stock at a per share exercise price of \$0.85.

NOTE 5: REPAYMENT OF OUTSTANDING DEBT

On September 6, 2005 the Company borrowed the principal amount of \$100. The principal amount of this loan, plus \$10 in respect of the arrangement fees was repaid on January 16, 2006. The Company issued to the holder of this indebtedness a three-year warrant to purchase up to 25,000 shares of Common Stock at a per share exercise price of \$0.75.

In August 2004 the Company negotiated with a lender the extension of the scheduled maturity date of indebtedness in the principal amount of \$140 that was originally scheduled to mature on October 12, 2005. The maturity date of \$100 of the original principal amount of this indebtedness was extended to March 31, 2006 and, on December 22, 2005, \$47 of the remaining principal amount and accrued interest was repaid. In consideration of the extension of the principal amount of \$100, the Company paid to the lender a one time arrangement fee of \$20 and issued to the holder of the debt a three-year warrant to purchase up to

Edgar Filing: SPO Medical Inc - Form 10QSB

15,000 shares of the Company's Common Stock at a per share price of \$0.75. On March 31, 2006 the principal amount of \$100 was repaid in full.

NOTE 6: PRIVATE PLACEMENT

In January 2006, the Company entered into an agreement with an institutional investor for the private placement of 857,143 shares of its Common Stock for gross proceeds of \$600 (prior to the payment of placement related expenses aggregating approximately to \$20). During the three months ended March 31, 2006, the Company received \$485 in gross proceeds from the agreed upon amount. The remaining proceeds were received through May 2006. See Note 7 (Subsequent Event).

NOTE 7: SUBSEQUENT EVENT

In April and May 2006, the Company received \$50 in gross proceeds in respect of the amounts due to it under the private placement referred to in Note 6 (Private Placement).

6

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

THE FOLLOWING DISCUSSION SHOULD BE READ IN CONJUNCTION WITH OUR FINANCIAL STATEMENTS AND THE NOTES RELATED TO THOSE STATEMENTS. SOME OF OUR DISCUSSION IS FORWARD-LOOKING AND INVOLVES RISKS AND UNCERTAINTIES. FOR INFORMATION REGARDING RISK FACTORS THAT COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS, REFER TO THE RISK FACTORS SECTION OF THE ANNUAL REPORT ON FORM 10-KSB FOR THE YEAR ENDED DECEMBER 31, 2005.

OVERVIEW

SPO Medical Inc. is engaged in the design, development and marketing of non-invasive pulse oximetry technologies to monitor blood oxygen saturation and heart rate for a variety of markets, including medical, homecare, sports and search & rescue. Pulse oximetry is a non-invasive process used to measure blood oxygen saturation levels and is an established procedure in medical practice. We utilize proprietary and patented technologies to deliver oximetry functionality through innovative commercial products that address such applications as emergency care, home monitoring, sleep apnea, cardiovascular performance, cardiac rehabilitation and the physiological monitoring of military personnel and safety care workers. We have developed and patented proprietary technology that enables the use of pulse oximetry in a reflectance mode of operation (i.e. a sensor that can be affixed to a single side of a body part). This technique is known as Reflectance Pulse Oximetry (RPO). Using RPO, a sensor can be positioned on various body parts, hence minimizing problems of motion and poor perfusion. The unique design features contribute to substantially lower electric power requirements and enable a wireless, stand-alone configuration with expanded commercial possibilities.

We were originally organized under the laws of the State of Delaware in September 1981 under the name "Applied DNA Systems, Inc." On November 16, 1994, we changed our name to "Nu-Tech Bio-Med, Inc." On December 23, 1998, we changed our name to "United Diagnostic, Inc." Effective April 21, 2005, we acquired 100% of the outstanding capital stock of SPO Ltd. pursuant to a Capital Stock Exchange Agreement dated as of February 28, 2005 among the Company, SPO Ltd. and the shareholders of SPO Ltd., as amended and restated on April 21, 2005 pursuant to which we issued to the former shareholders of SPO Ltd. a total of 5,769,106 shares of the Company's Common Stock representing approximately 90% of the Common Stock then issued and outstanding.

Edgar Filing: SPO Medical Inc - Form 10QSB

CRITICAL ACCOUNTING POLICIES

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

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

7

Revenue Recognition

We generate revenues from sales of our products. Revenues are recognized when delivery has occurred, persuasive evidence of an arrangement exists, the vendor's fee is fixed or determinable, no further obligation exists and collection of is probable and there are no remaining significant obligations. Delivery is considered to have occurred upon delivery of products to the reseller.

Inventory Valuation

Inventories are stated at the lower of cost or market. Cost is determined as follows: raw materials, components and finished products - on the first in first out (FIFO) basis. Work-in-process - on the basis of direct manufacturing costs.

Stock-based compensation

In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123(R). SFAS No. 123(R) requires employee share-based equity awards to be accounted for under the fair value method, and eliminates the ability to account for these instruments under the intrinsic value method prescribed by APB Opinion No. 25 and allowed under the original provisions of SFAS No. 123. SFAS No. 123(R) requires the use of an option pricing model for estimating fair value, which is then amortized to expense over the service periods. If we had adopted SFAS 123(R) in prior periods, the impact of that standard would have approximated the impact of SFAS 123 as described in the disclosure of pro forma net income and income per share above. SFAS No. 123(R) allows for either prospective recognition of compensation expense or retrospective recognition. In the first quarter of 2006, we began to apply the prospective recognition method and implemented the provisions of SFAS No. 123(R). In January 2005, the SEC issued SAB No. 107, which provides supplemental implementation guidance for SFAS No. 123(R). SFAS No. 123(R) will be effective for us beginning in the first quarter of fiscal 2006

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and

Edgar Filing: SPO Medical Inc - Form 10QSB

accompanying notes. Actual results could differ from those estimates.

RESULTS OF OPERATIONS

COMPARISON OF THE THREE MONTHS ENDED MARCH 31, 2006 AND THE THREE MONTHS ENDED MARCH 31, 2005

REVENUES. Revenues are currently derived primarily from sales of our PulseOX 5500 TM and Check Mate TM designed for the medical, homecare and sports markets. Revenues for the three months ended March 31, 2006 and 2005 were \$701,000 and \$373,000, respectively. The increase in revenues during the 2006 period reflected increased sales of our products.

Under the current marketing strategy we rely on a limited number of resellers in the United States, Europe and Asia to distribute our products. One of these resellers accounted for a significant part of the revenues that we have recorded to date. The loss of, or the significant decrease in purchases by this reseller could have a material adverse effect on our results of operation.

8

COSTS OF REVENUES. Costs of revenues for the three months ended March 31, 2006 and 2005 were \$352,000 and \$154,000, respectively. Cost of revenues include all costs related to manufacturing and selling products and services and consist primarily of direct material costs and salaries and related expenses for personnel. This increase in cost of revenues during the 2006 period is primarily attributable to the increase in sales of our products and costs associated with additional quality control processes on the introduction of new components into the products.

RESEARCH AND DEVELOPMENT EXPENSES. Research and development expenses consist primarily of expenses incurred in the design, development and testing of our products. These expenses consist primarily of salaries and related expenses for personnel, contract design and testing services, supplies used and consulting and license fees paid to third parties and are net of any government grants and development fees charged to third parties. Research and development expenses for the three months ended March 31, 2006 and 2005 were \$170,000 and \$97,000, respectively. The increase in research and development expenses during the 2006 period as compared to the 2005 period is primarily attributable to increased salary expenses and non cash expenses that we recorded as a result of the implementation of FAS123R as well as expenses incurred in connection with our continuing product enhancement efforts as well development costs associated with new product development.

SELLING AND MARKETING EXPENSES. Selling and marketing expenses consist primarily of costs relating to compensation attributable to employees engaged in sales and marketing activities, promotion, sales support, travel and related expenses. Selling and marketing expenses for the three months ended March 31, 2006 and 2005 were \$141,000 and \$112,000, respectively. The increase in selling and marketing expenses during the 2006 period is primarily attributable to non cash expenses that we recoded as a result of the implementation of FAS123R as well as increases in compensation costs.

GENERAL AND ADMINISTRATIVE EXPENSES. General and administrative expenses primarily consist of salaries and other related costs for personnel in executive and other administrative functions. Other significant costs include professional fees for legal, accounting services. General and administrative expenses for the three months ended March 31, 2006 and 2005 were \$220,000 and \$106,000 respectively. The increase in general and administrative expenses during the 2006 period as compared to the 2005 period is primarily attributable

Edgar Filing: SPO Medical Inc - Form 10QSB

to higher compensation costs that we incurred in connection with the hiring of new employees during 2005 and 2006 and other increased compensation costs, increased accounting, legal and other professional expenses and non cash expenses that we recorded as a result of the implementation of FAS123R.

FINANCIAL EXPENSES, NET. Financial expense net, for the three months ended March 31, 2006 and 2005 were \$939,000 and \$58,000 respectively. The increase in financial expenses, net, during the three months ended March 31, 2006 is primarily attributable to non-cash expenses that we recorded in respect of deferred compensation benefits as well the interest accrued on the loans advanced to the company since April 2005.

NET LOSS. For the three months ended March 31, 2006 and 2005 we had a net loss of \$1,121,000 and \$191,000, respectively. The increase in net loss during the three months ended March 31, 2006 is primarily attributable to the non-cash expense that we recorded during the period and discussed above under "Financial Expenses, Net".

9

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2006, we had cash and cash equivalents of approximately \$606,000, compared to \$493,000 at December 31, 2005.

We generated negative cash flow from operating activities of approximately \$270,000 during the three months ended March 31, 2006 compared to \$325,000 for the three months ended March 31, 2005.

From inception, we have financed our operations primarily from the sale of our securities. Our recent financings are discussed below.

In April 2005 we raised \$1,544,000 from the private placement to certain accredited of certain units of our securities, with each unit comprised of (i) an 18 month 6% Promissory Note and (ii) three year warrants to purchase up to such number of shares of our Common Stock of the Company as are determined by the principal amount of the Note purchased by such investor divided by \$ 0.85, at a per share exercise price of \$0.85.

On February 1, 2006 the Company borrowed the principal amount of \$150,000. This loan bears interest at an annual rate of prime plus 4% and is repayable in four equal installments every three calendar months through January 31, 2007. The Company issued to the holder of this indebtedness a three year warrant to purchase up to 60,000 shares of Common Stock at a per share exercise price of \$0.85.

In January 2006 we and an institutional investor entered into an agreement pursuant to which we agreed to sell to such investor shares of our Common Stock for aggregate gross proceeds of \$600,000. During the three months ended March 31, 2006, we received \$485,000 in gross proceeds in respect of this private placement and, in April and May 2006, an additional \$50,000 of the remaining gross proceeds due were remitted to us.

In addition to the funds we raised, in December 2005, we obtained an extension of nine months to the scheduled maturity of our convertible promissory notes (collectively the "Notes") in the aggregate principal amount of \$300,000. The Notes bear interest at an annual rate of 8% and are payable on September 30, 2006. At the election of the holder, the Notes are convertible into the Company's Common Stock at a per share price equal to the lesser of (i) 60% of the per share purchase price of any Company security subsequently sold by the

Edgar Filing: SPO Medical Inc - Form 10QSB

Company and (ii) \$0.705.

We need to raise additional funds to be able to satisfy our cash requirements over the next twelve months. Product development, corporate operations and marketing expenses will continue to require additional capital. Our current revenue from operations is insufficient to cover our current operating expenses and projected expansion plans. We therefore are aggressively seeking additional financing through the sale of our equity and/or debt securities to satisfy future capital requirements until such time as we are able to generate sufficient cash flow from revenues to finance on-going operations. No assurance can be provided that additional capital will be available to us on commercially acceptable or at all. Our auditors included a "going concern" qualification in their auditors' report for the year ended December 31, 2005. While we have raised approximately \$535,000 in gross proceeds from the sale of our debt securities to date since the beginning of 2006, such "going concern" qualification may make it more difficult for us to raise funds when needed. Additional equity financings may be dilutive to holders of our Common Stock.

10

ITEM 3. CONTROLS AND PROCEDURES

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

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective.

CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING. During the quarter ended March 31, 2006, there have been no changes in our internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, these controls.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

None.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

During the three months ended March 31, 2006, we issued unregistered securities as follows:

(i) In February 2006, we issued to a service provider warrants, exercisable over four-years from the date of issuance, to purchase up to 500,000 shares of our Common Stock at a per share exercise price of \$0.01. The warrants were vested on issuance. In February 2006, the warrants were exercised in full

Edgar Filing: SPO Medical Inc - Form 10QSB

upon payment of the aggregate exercise price of \$5,000.

(ii) In connection with an advance of \$150,000 made to us in February 2005, we issued to the lender a three year warrant to purchase up to 60,000 shares of Common Stock at a per share exercise price of \$0.85.

All of the securities above were issued in transactions not involving a public offering and were issued without registration in reliance upon the exemption from registration afforded by Section 4(2) of the Securities Act of 1933, as amended, and Regulation D promulgated thereunder.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

11

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

None.

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS.

10.1 Stock Purchase Agreement dated as of January 10, 2006 between SPO Medical Inc. and the investor specified therein.

31.1 Rule 13a-14(a) / 15d-14(a) Certification of Chief Executive Officer

31.2 Rule 13a-14(a) / 15d-14(a) Certification of Chief Financial Officer

32.1 Section 1350 Certification

32.2 Section 1350 Certification

12

SIGNATURES

In accordance with the requirements of the Exchange Act, the small business issuer has caused this report to be signed by the undersigned thereunto duly authorized.

DATE: May 22, 2006

SPO MEDICAL INC.

/s/ MICHAEL BRAUNOLD

MICHAEL BRAUNOLD
PRESIDENT AND CHIEF EXECUTIVE OFFICER

Edgar Filing: SPO Medical Inc - Form 10QSB

PRINCIPAL FINANCIAL AND ACCOUNTING OFFICER

DATE: May 22, 2006

BY /s/ JEFF FEUER

JEFF FEUER,
CHIEF FINANCIAL OFFICER
(PRINCIPAL FINANCIAL AND ACCOUNTING OFFICER)