SPHERIX INC
Form 10-Q
August 14, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended June 30, 2008.

o **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 0-5576

SPHERIX INCORPORATED

(Exact name of Registrant as specified in its charter)

Delaware	**52-0849320**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

6430 Rockledge Drive, Suite 503, Bethesda, MD 20817

(Address of principal executive offices)

301-897-2540

(Registrant s telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the 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 o

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 definition of accelerated filer and large accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer o Accelerated Filer o Non-accelerated Filer o 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 o No x

Indicate the number of shares outstanding of each of the Registrant s classes of Common Stock, as of the latest practicable date.

Class	**Outstanding as of August 12, 2008**
Common Stock, $0.005 par value	14,318,702 shares

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Form 10-Q

For the Quarter Ended June 30, 2008

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Spherix Incorporated

Part I. Financial Information

Item 1. Financial Statements

Consolidated Statements of Operations

(Unaudited)

	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Revenue	$ 263,151	$ 3,769	$ 406,059	$ 4,019
Operating expense				
Direct costs	98,825		160,419	
Research and development expense	709,941	985,937	1,741,149	2,385,540
Selling, general and administrative expense	741,295	959,854	1,842,210	1,637,072
Total operating expense	1,550,061	1,945,791	3,743,778	4,022,612
Loss from operations	(1,286,910)	(1,942,022)	(3,337,719)	(4,018,593)
Interest income	88,637	21,131	225,212	57,724
Interest expense		29		29
Loss from continuing operations before taxes	(1,198,273)	(1,920,920)	(3,112,507)	(3,960,898)
Income tax expense		(21,043)		(21,043)
Loss from continuing operations	(1,198,273)	(1,941,963)	(3,112,507)	(3,981,941)
Discontinued operations				
Income from discontinued operations before taxes		240,261		2,218
Income tax expense		(43,957)		(56,457)
Income (loss) from discontinued operations		196,304		(54,239)
Net loss	$ (1,198,273)	$ (1,745,659)	$ (3,112,507)	$ (4,036,180)
Net (loss) income per share, basic				
Continuing operations	$ (0.08)	$ (0.14)	$ (0.22)	$ (0.28)
Discontinued operations	$	$ 0.01	$	$
Net (loss) income per share, basic	$ (0.08)	$ (0.12)	$ (0.22)	$ (0.29)

Net (loss) income per share, diluted								
Continuing operations	$	(0.08)	$	(0.14)	$	(0.22)	$	(0.28)
Discontinued operations	$		$	0.01	$		$	
Net (loss) income per share, diluted	$	(0.08)	$	(0.12)	$	(0.22)	$	(0.29)
Weighted average shares outstanding, basic		14,318,702		14,254,562		14,318,702		14,125,660
Weighted average shares outstanding, diluted		14,318,702		14,254,562		14,318,702		14,125,660

See accompanying notes to financial statements.

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Spherix Incorporated

Consolidated Balance Sheets

	June 30, 2008 (Unaudited)	December 31, 2007
ASSETS		
Current assets		
Cash and cash equivalents	$ 7,926,655	$ 15,839,959
Short-term investments	4,054,076	
Trade accounts receivable	275,232	38,581
Other receivables	88,663	167,229
Prepaid expenses and other assets	211,789	372,242
Total current assets	12,556,415	16,418,011
Property and equipment, net of accumulated depreciation of $124,583 and $599,266	355,448	55,088
Patents and intangibles, net of accumulated amortization of $78,289 and $110,599	26,681	32,371
Deposit	35,625	35,625
Total assets	$ 12,974,169	$ 16,541,095
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable and accrued expenses	$ 526,902	$ 1,046,537
Accrued salaries and benefits	297,150	362,334
Income taxes payable		50,738
Deferred revenue	25,996	15,165
Total current liabilities	850,048	1,474,774
Deferred compensation	605,000	609,000
Deferred rent	149,958	6,531
Total liabilities	1,605,006	2,090,305
Commitments and contingencies		
Stockholders equity		
Preferred stock, $0.01 par value, 2,000,000 shares authorized; none issued and outstanding		
Common stock, $0.005 par value, 50,000,000 shares authorized; 14,399,140 issued, and 14,318,702 shares outstanding at June 30, 2008 and December 31, 2007	71,996	71,996
Paid-in capital in excess of par value	27,539,298	27,508,418
Treasury stock, 80,438 shares, at cost at June 30, 2008 and December 31, 2007	(464,786)	(464,786)
Accumulated deficit	(15,777,345)	(12,664,838)
Total stockholders equity	11,369,163	14,450,790
Total liabilities and stockholders equity	$ 12,974,169	$ 16,541,095

See accompanying notes to financial statements.

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Spherix Incorporated

Consolidated Statements of Cash Flows

(Unaudited)

	Six Months Ended June 30, 2008	2007
Cash flows from operating activities		
Net loss	$ (3,112,507)	$ (4,036,180)
Adjustments to reconcile net loss to net cash used in operating activities:		
Loss from discontinued operations		54,239
Depreciation and amortization	34,047	82,219
Gain on disposal of assets	(14,701)	
Stock-based compensation	30,880	13,866
Changes in assets and liabilities:		
Accounts receivable	(236,651)	
Other receivables	78,566	447
Prepaid expenses and other assets	160,453	49,022
Accounts payable and accrued expenses	(685,927)	223,813
Deferred rent	(6,573)	(27,849)
Deferred compensation	(4,000)	2,852
Deferred revenue	10,831	
Net cash used in activities of continuing operations	(3,745,582)	(3,637,571)
Net cash provided by activities of discontinued operations		1,264,889
Net cash used in operating activities	(3,745,582)	(2,372,682)
Cash flow from investing activities		
Purchases of short-term investments	(4,054,076)	
Purchases of property and equipment	(179,203)	(13,729)
Proceeds from the sale of fixed assets	15,187	
Net cash used in investing activities of continuing operations	(4,218,092)	(13,729)
Net cash used in investing activities of discontinued operations		(1,137,650)
Net cash used in investing activities	(4,218,092)	(1,151,379)
Cash flows from financing activities		
Net change in book overdraft	50,370	57,316
Payments on capital lease obligations		(8,729)
Proceeds from issuance of common stock		757,500
Net cash provided by financing activities of continuing operations	50,370	806,087
Net cash used in financing activities of discontinued operations		(37,921)
Net cash provided by financing activities	50,370	768,166
Net decrease in cash and cash equivalents	(7,913,304)	(2,755,895)
Cash and cash equivalents, beginning of period	15,839,959	10,951,275
Cash and cash equivalents, end of period	$ 7,926,655	$ 8,195,380

See accompanying notes to financial statements.

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Notes to the Consolidated Financial Statements

(Unaudited)

1. Basis of Presentation

The accompanying consolidated financial statements of the Company are unaudited and do not include all of the information and disclosures generally required for annual financial statements. In the opinion of management, the statements contain all material adjustments (consisting of normal recurring accruals) necessary to present fairly the Company s financial position as of June 30, 2008, the results of its operations for the three-month and six-month periods ended June 30, 2008 and 2007, and its cash flows for the six-month periods ended June 30, 2008 and 2007. This report should be read in conjunction with the Company s Annual Report on Form 10-K, which does contain the complete information and disclosure for the year ended December 31, 2007.

The consolidated financial statements have historically included the accounts of both Spherix Incorporated and InfoSpherix Incorporated (collectively, the Company). All intercompany balances and transactions have been eliminated.

On August 15, 2007, the Company sold InfoSpherix. Accordingly, the operations of InfoSpherix are reported in the accompanying financial statements as discontinued operations in the Consolidated Statement of Operations. The activities of the BioSpherix division continue to operate through Spherix Incorporated. In July 2007, Spherix entered into the Health Sciences consulting business to provide technical and regulatory consulting services to biotechnology and pharmaceutical companies, as well as aiding the Company s own R&D activities.

2. Use of Estimates and Assumptions

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. This requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the period. Accordingly, actual results could differ from those estimates and assumptions.

3. New Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The effective date of nonfinancial assets and nonfinancial liabilities was deferred to fiscal years beginning after November 15, 2008; all other provisions of the pronouncement became effective January 1, 2008. The adoption of this Statement did not have a material impact on the Company s financial position, results of operations or cash flows.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159). SFAS 159 permits entities to choose to measure many financial assets and liabilities at fair value. The fair value option may be applied, subject to certain exceptions, on an instrument-by-instrument basis, is irrevocable, and is applied only to entire instruments and not to portions of instruments. SFAS 159 is effective for our fiscal year beginning January 1, 2008. The adoption of this Statement did not have a material impact on the Company s financial position, results of operations or cash flows.

4. Short-term Investments

The Company s short-term investments consist of investments in debt securities, which mature in one year or less, and are valued at amortized cost, which approximates fair value.

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5. Fair Value Measurements

Effective January 1, 2008, the company adopted Statement of Financial Accounting Standards No. 157 *Fair Value Measurements,* (SFAS 157), to value its financial assets measured at fair value. At June 30, 2008, the Company had no financial liabilities.

The following table presents the Company s financial assets measured at fair value as of June 30, 2008:

		Fair Value Measurement Using		
Description	**Fair Value at June 30, 2008**	**Quoted Market Prices(1)**	**Observable Inputs(2)**	**Unobservable Inputs(3)**
Debt securities	$ 4,046,612	$ 4,046,612	$	$

(1) The highest level of fair value input and represents inputs to fair value from quoted prices in active markets for identical assets and liabilities to those being valued.

(2) Directly or indirectly observable inputs, other than quoted prices in active markets, for the assets or liabilities being valued including but not limited to, interest rates, yield curves, principal-to-principal markets, etc.

(3) Lowest level of fair value input because it is unobservable and reflects the Company s own assumptions about what market participants would use in pricing assets and liabilities at fair value.

An associated pronouncement, SFAS No. 159 *The Fair Value Option for Financial Assets and Financial Liabilities,* was also effective at the beginning of the Company s 2008 fiscal year. The Company has elected not to apply the fair value option to measure any of the financial assets and liabilities on its balance sheet not already valued at fair value under other accounting pronouncements. These other financial assets and liabilities are primarily short-term investments, accounts receivable, accounts payable and debt which are reported at historical value. The fair value of these financial assets and liabilities approximate their historical value because of their short duration.

6. Discontinued Operations

On August 15, 2007, the Company completed the sale of InfoSpherix for $17 million ($15 million at closing and $2 million following a 15-month escrow period), pursuant to the Stock Purchase Agreement dated June 25, 2007. The $15 million sale proceeds were included in the gain on sale of the discontinued segment at the time of closing in August 2007. The $2 million escrow balance, less any conditional offsets, will be recorded as a gain on sale of the discontinued segment when and if realized in November 2008. The InfoSpherix segment comprised the majority of the Company s operations prior to the sale. The sale will allow Spherix to focus substantially all of its efforts on the BioSpherix

Division s biotechnology products, with the principal focus on the commercialization of Naturlose.

The results of operations of the discontinued InfoSpherix segment for the three months and six months ended June 30, 2007 are as follows:

	Three Months Ended June 30, 2007	Six Months Ended June 30, 2007
Discontinued operations	$ 6,490,000	$ 11,837,000
Revenue		
Direct cost and operating expense	5,471,000	10,387,000
Selling, general and administrative expense	657,000	1,390,000
Costs to sell segment	172,000	172,000
Interest revenue	58,000	132,000
Interest expense	8,000	18,000
Income from discontinued operations before taxes	$ 240,000	$ 2,000

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7. Net Loss Per Share

Basic net loss per common share has been computed by dividing net loss by the weighted-average number of common shares outstanding during the year. Diluted net loss per common share has been computed by dividing net loss by the weighted-average number of common shares outstanding without an assumed increase in common shares outstanding for common stock equivalents, as common stock equivalents are antidilutive.

8. Stockholders Equity

During the six months ended June 30, 2007, the Company sold 442,358 shares for an additional $757,500 in proceeds under the July 22, 2005, Standby Equity Distribution Agreement (SEDA). The SEDA ended on October 12, 2007.

9. Accounting for Stock-Based Compensation

For the three- and six-months ended March 31 and June 30, 2008, the Company recognized $3,000 and $6,000 in stock-based compensation expense relating to 59,000 stock options awarded in February 2006, and for the three- and six-months ended March 31 and June 30, 2007, the Company recognized $7,000 and $14,000.

For the three- and six-months ended June 30, 2008, the Company recognized $12,000 and $24,000 in stock-based compensation expense relating to 30,000 and 15,000 shares in restricted stock the Company granted in August 2007 to its Chief Executive Officer and President, respectively.

A summary of option activity under the Company s employee stock option plan for the six months ended June 30, 2008, is presented below:

Options	Shares		Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2007	216,800	$	7.36		
Granted		$			
Exercised		$			
Expired or forfeited	(100)	$	6.35		

Outstanding at June 30, 2008	216,700	$ 7.36	0.7	$
Exercisable at June 30, 2008	215,200	$ 7.39	0.7	$

As of June 30, 2008, there were approximately 1,500 unvested options to purchase common stock under the plans. An estimated compensation cost of $21,000 related to these unvested options is expected to be recognized over the next two years.

The Company used the following assumptions in the Black-Scholes calculation used to measure the fair value of the February 2006 option awards in accordance with FAS 123R.

Expected term (in years)	4
Expected volatility	140.9%
Expected dividends	0%
Risk-free rate	4.6%

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10. Information by Business Segment

Operating segments are components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision-making group, in deciding how to allocate resources and in assessing performance. Following the sale of the InfoSpherix subsidiary on August 15, 2007, the Company operates via two principal segments, BioSpherix and Health Sciences. BioSpherix develops proprietary products for commercial applications. Health Sciences consulting business provides technical and regulatory consulting services to biotechnology and pharmaceutical companies, as well as aiding the Company s own R&D activities.

Financial information by business segment for the three and six months ended June 30, 2008 and 2007 is summarized below.

		Three Months Ended June 30,		Six Months Ended June 30,	
		2008	2007	2008	2007
Revenue	BioSpherix	$ 5,000	$ 4,000	$ 5,000	$ 4,000
	Health Sciences	258,000		401,000	
	Total revenue	$ 263,000	$ 4,000	$ 406,000	$ 4,000
Operating (Loss) Income and Loss Before Income Taxes	BioSpherix	$ (722,000)	$ (982,000)	$ (1,878,000)	$ (2,382,000)
	Health Sciences	125,000		145,000	
	General	(690,000)	(960,000)	(1,605,000)	(1,637,000)
	Total operating loss	(1,287,000)	(1,942,000)	(3,338,000)	(4,019,000)
	Interest income	88,000	21,000	225,000	58,000
	Interest expense				
	Loss from operations before income taxes	$ (1,199,000)	$ (1,921,000)	$ (3,113,000)	$ (3,961,000)

		June 30, 2008	Dec 31, 2007
Identifiable Assets	BioSpherix	$ 36,000	$ 89,000
	Health Sciences	290,000	85,000
	General corporate assets	12,648,000	16,367,000
	Total assets	$ 12,974,000	$ 16,541,000

11. Subsequent Events

On July 21, 2008, NASDAQ notified the Company that the bid price of the Company s common stock for the last thirty consecutive business days had closed below the minimum $1.00 per share required for continued listing on the NASDAQ. The Notice has no effect on the listing of the Common Stock at this time. The Company has 180 calendar days, or until January 20, 2009, to regain compliance with the Minimum Price Requirement. If the Company does not regain compliance by January 20, 2009, NASDAQ will provide notice to the Company that the Common Stock will be delisted from NASDAQ. The Company is considering seeking stockholder approval for a reverse stock split to address the bid price deficiency.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

The following is intended to update the information contained in the Company s Annual Report on Form 10-K for the year ended December 31, 2007, and presumes that readers have access to, and will have read, Management s Discussion and Analysis of Financial Condition and Results of Operations contained in such Form 10-K.

Certain statements in this Quarterly Report on Form 10-Q may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 and are identified by the use of forward-looking words or phrases such as believes, expects, is or are expected, anticipates, anticipated, should and words of similar impact. These forward-looking statements are based on the Company s current expectations. Because forward-looking statements involve risks and uncertainties, the Company s

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actual results could differ materially. See the Company s Form 8-K filing dated October 10, 2007, for a more detailed statement concerning forward-looking statements.

Overview

The Company s principal segments of operation, prior to August 15, 2007, were InfoSpherix and BioSpherix. BioSpherix develops proprietary products for commercial applications. InfoSpherix provided contact center information and reservations services for government and industry. On August 15, 2007, the Company sold InfoSpherix. The sale allows Spherix to focus substantially all of its efforts on the BioSpherix Division s biotechnology products, where the principal focus is on the commercialization of Naturlose. The operations of InfoSpherix are reported in the accompanying financial statements as discontinued operations.

BioSpherix engages in product development, notably tagatose. The Company s current focus is on the non-food use of tagatose, which we will market under the name Naturlose . Our principal efforts have been to explore whether Naturlose is an effective treatment for Type 2 diabetes. In April 2007, the Company commenced a Phase 3 clinical trial under a Food and Drug Administration (FDA) Investigational New Drug (IND) application process for this purpose. As a result, the Company expects to incur substantial development costs in the next few years, without any substantial corresponding revenue.

In July 2007, the Company started a new business when it entered into the Health Sciences consulting business to provide technical and regulatory consulting services to biotechnology and pharmaceutical companies, as well as aiding the Company s own R&D activities. The Company now operates via two principal segments, BioSpherix and Health Sciences.

On July 21, 2008, NASDAQ notified the Company that the bid price of the Company s common stock for the last thirty consecutive business days had closed below the minimum $1.00 per share required for continued listing on the NASDAQ. The Notice has no effect on the listing of the Common Stock at this time. The Company has 180 calendar days, or until January 20, 2009, to regain compliance with the Minimum Price Requirement. If the Company does not regain compliance by January 20, 2009, NASDAQ will provide notice to the Company that the Common Stock will be delisted from NASDAQ. The Company is considering seeking stockholder approval for a reverse stock split to address the bid price deficiency.

Results of Operations for the Three and Six Months Ended June 30, 2008 and 2007

Revenue and Direct Costs

Revenue and direct contract costs for the three and six months ended June 30, 2008 are primarily related to the Company s new Health Sciences consulting business. In April 2008, the Company hired an experienced toxicologist to assist with the consulting projects and is planning on hiring additional staff.

No substantial revenue is expected from the BioSpherix segment until the Company is successful in selling or licensing its technology. As noted below, this is unlikely to occur until the Company s Phase 3 trials are completed.

Research and Development

Research and development expenditures relate solely to the BioSpherix segment.

The Company s ongoing Phase 3 clinical trial in the use of Naturlose for the treatment of Type 2 diabetes is the primary focus of the BioSpherix division. The R&D expenditures for 2008 and 2007 were directly related to the diabetes clinical trial. The R&D expenditures for three and six months ended June 30, 2007 consisted of start-up costs for the Phase 3 clinical trial and those of the same periods in 2008 consisted of both the Phase 3 clinical trial and a related Dose Range study.

Patient recruitment for the clinical trial has been slower than expected. After evaluating its options, and with the aim of increasing site support and communication, the Company decided to terminate its agreement with its former

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Contract Research Organization (CRO) on March 31, 2008, and has taken over full control of the U.S. based clinical trial and its pivotal contracts. The Company s new Chief of Operations, who previously ran the operations group for a CRO prior to joining Spherix and has 16 years of pharmaceutical industry experience, will be monitoring and overseeing all aspects of the Phase 3 clinical trial and the Dose Range study. The Company expects that the Dose Range study will most likely be completed in 2009 and the Phase 3 trial will most likely be completed in 2010 based on the current enrollment and retention numbers.

To enhance enrollment and retention, the Company has successfully petitioned the Food and Drug Administration (FDA) to eliminate the need for pre-mixed solutions for the delivery of study medicine, which will be more convenient for the trial participants. The Company will also be conducting a portion of the Phase 3 trial in India where patient enrollment and retention is generally greater than in the U.S. and in July 2008, the Company signed an agreement with a Contract Research Organization (CRO) to manage the trial in India. These changes are expected to enhance recruitment and compliance in the trial.

Selling, General and Administrative

The increase between years for the six months ended June 2008 is the result of a number of factors including Naturlose marketing studies, marketing of the new Health Sciences business, increased accounting costs and executive bonuses. Excluded from the above are costs directly related to the discontinued segment. The decrease between years for the three months ended June 2008 is primarily the result of the relocation of the Company s headquarters to a smaller facility in Bethesda Maryland effective April 1, 2008, which decreased the Company s overhead costs.

Interest

The increases in interest income are a direct result of the earnings on the investment of the proceeds from the sale of the InfoSpherix subsidiary.

Discontinued Operations

On August 15, 2007, the Company completed the sale of InfoSpherix for $17 million ($15 million at closing and $2 million following a 15-month escrow period), pursuant to the Stock Purchase Agreement dated June 25, 2007. The 2007 amounts included in the Consolidated Statements of Operations represent the net results of InfoSpherix in the periods ended June 30, 2007 as follows:

	Three Months Ended June 30, 2007	Six Months Ended June 30, 2007
Discontinued operations		
Revenue	$ 6,490,000	$ 11,837,000
Direct cost and operating expense	5,471,000	10,387,000

Selling, general and administrative expense		657,000		1,390,000
Costs to sell segment		172,000		172,000
Interest revenue		58,000		132,000
Interest expense		8,000		18,000
Income from discontinued operations before taxes	$	240,000	$	2,000

Liquidity and Capital Resources, Consolidated

Working capital as of June 30, 2008, was $11.7 million, which represents a $3.2 million decrease from working capital at December 31, 2007. R&D and marketing activity related to the commercialization of Naturlose accounted for approximately $1.9 million of the decrease in working capital.

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On June 25, 2007, as part of the sale of InfoSpherix, the Company closed its line-of-credit with the Bank. Accordingly, we are operating our BioSpherix efforts solely from the net proceeds we received from the sale of InfoSpherix. The newly launched Health Sciences business is not expected to generate any substantial excess cash flow in the next twelve (12) months.

Spherix expects to expend approximately $5 million over the next year in costs related to the Phase 3 clinical trial and other R&D and marketing activity related to the commercialization of Naturlose. The clinical trial is expected to be completed in 2010. The Company intends to finance the BioSpherix activities principally through proceeds from the sale of InfoSpherix and may consider raising additional funds through the sale of common stock and/or other means. While the Company completes its Phase 3 trial, it will be taking other steps to prepare for commercialization of Naturlose as a treatment for Type 2 diabetes on the assumption that the trials will be successful. These steps include additional dose range testing, exploring manufacturing alternatives and seeking marketing assistance. The Company s goal remains to attempt to attract a pharmaceutical company to purchase or license the technology at the earliest practicable stage. Our preliminary marketing analysis suggests that we may increase our chances of success by engaging in some directed marketing efforts as we proceed with the Phase 3 trials.

In the event the Company needs additional funds, it may seek other financing, including possible sale of additional shares of its common stock. Additional funds will be required if the Phase 3 trials are further delayed, and would likely be required to engage in any substantial directed marketing activities noted above.

Cash flow for the six months ended June 30, 2008, consisted of $3.7 million used in operating activities including approximately $1.9 million in R&D activity and related market research, and $4.1 million the Company invested in short-term debt securities.

Continued progress on the clinical trial of Naturlose as a treatment of Type 2 diabetes and on the other initiatives described above is dependent upon many factors including, but not limited to, the Company having sufficient funds and resources. The total cost of completing the Phase 3 trial is difficult to determine and can be affected by a number of factors, including, but not limited to, the time to complete the trial.

Item 4T. Controls and Procedures

Inherent Limitations on the Effectiveness of Controls

Management, including our Chief Executive Officer and Chief Financial Officer, do not expect that our disclosure controls and procedures will prevent all errors and fraud. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable, not absolute, assurance of achieving the desired control objectives. Further, the design of a control system must reflect the fact that there are resource constraints, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management s override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

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, such as this report on Form 10-Q, 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 our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to

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allow timely decisions regarding required disclosure. These controls and procedures are based closely on the definition of disclosure controls and procedures in Rule 13a-15(e) promulgated under the Exchange Act. Rules adopted by the SEC require that we present the conclusions of the Chief Executive Officer and Chief Financial Officer about the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report.

The Company carried out an evaluation, under the supervision and with the participation of the Company s management, including the Company s Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company s disclosure controls and procedures to provide reasonable assurance of achieving their objective pursuant to Exchange Act Rule 13a-14. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company s disclosure controls and procedures are effective.

Internal Controls

There were no changes in the Company s internal control over financial reporting during the period covered by this quarterly report that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

Part II. Other Information

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A Risk Factors in our Form 10-K for the year ending December 31, 2007, which could materially affect our business, financial condition, and results of operations. The risks described in our Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

Item 4. Submission of Matters to a Vote of Security Holders

The Annual Meeting of Stockholders of the Company was held on May 13, 2008, where the following actions were taken:

(1) Douglas T. Brown, A. Paul Cox, Jr., Claire L. Kruger, Gilbert V. Levin, Robert A. Lodder, Jr., Aristides Melissaratos, and Robert J. Vander Zanden were elected as Directors to serve until the next Annual Meeting pursuant to the following vote tabulation:

Name	Shares Voted For	Shares Voted Against	Shares Voted Abstained
Douglas T. Brown	12,134,358	540,187	0
A. Paul Cox, Jr.	12,142,148	532,397	0
Claire L. Kruger	11,556,884	1,117,661	0
Gilbert V. Levin	12,114,791	559,754	0
Robert A. Lodder, Jr.	11,055,759	1,618,786	0
Aristides Melissaratos	12,120,084	554,461	0
Robert J. Vander Zanden	12,141,484	533,061	0

(2) The selection of Grant Thornton LLP as independent accountants of the Company for the year ending December 31, 2008, was ratified, with 12,490,337 shares voted in favor, 130,010 shares voted against, and 54,198 shares abstaining.

Item 6. Exhibits

31.1 Certification of Chief Executive Officer of Spherix Incorporated pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

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31.2 Certification of Chief Financial Officer of Spherix Incorporated pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1 Certification of Chief Executive Officer of Spherix Incorporated pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2 Certification of Chief Financial Officer of Spherix Incorporated pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Signatures

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

		Spherix Incorporated **(Registrant)**	
Date:	August 13, 2008	By:	/s/ Claire L. Kruger Claire L. Kruger Chief Executive Officer and Chief Operating Officer
Date:	August 13, 2008	By:	/s/ Robert L. Clayton Robert L. Clayton, CPA Chief Financial Officer and Treasurer