SPHERIX INC
Form 10-Q
November 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 September 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 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 September 30, 2008**
Common Stock, $0.005 par value	14,357,162 shares

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Spherix Incorporated

Form 10-Q

For the Quarter Ended September 30, 2008

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Spherix Incorporated

Part I. Financial Information

Item 1. Financial Statements

Consolidated Statements of Operations

(Unaudited)

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Revenue	$ 307,714	$ 58,500	$ 713,773	$ 62,519
Operating expense				
Direct contract costs	128,386	13,400	288,805	13,400
Research and development expense	1,304,150	2,091,738	3,045,299	4,477,278
General and administrative expense	671,017	1,173,271	2,513,227	2,810,343
Total operating expense	2,103,553	3,278,409	5,847,331	7,301,021
Loss from operations	(1,795,839)	(3,219,909)	(5,133,558)	(7,238,502)
Interest income	68,611	117,921	293,823	175,645
Interest expense	(2,220)	(48)	(2,220)	(77)
Other expense	(5,994)		(5,994)	
Loss from continuing operations before taxes	(1,735,442)	(3,102,036)	(4,847,949)	(7,062,934)
Income tax benefit		3,429,058		3,408,015
(Loss) income from continuing operations	(1,735,442)	327,022	(4,847,949)	(3,654,919)
Discontinued operations				
Income from discontinued operations before taxes		9,133,829		9,136,047
Income tax expense		(4,166,896)		(4,223,353)
Income from discontinued operations		4,966,933		4,912,694
Net (loss) income	$ (1,735,442)	$ 5,293,955	$ (4,847,949)	$ 1,257,775
Net (loss) income per share, basic				
Continuing operations	$ (0.12)	$ 0.02	$ (0.34)	$ (0.26)
Discontinued operations	$	$ 0.35	$	$ 0.35

Net (loss) income per share, basic	$	(0.12)	$	0.37	$	(0.34)	$	0.09
Net (loss) income per share, diluted								
Continuing operations	$	(0.12)	$	0.02	$	(0.34)	$	(0.26)
Discontinued operations	$		$	0.35	$		$	0.35
Net (loss) income per share, diluted	$	(0.12)	$	0.37	$	(0.34)	$	0.09
Weighted average shares outstanding, basic		14,357,162		14,291,132		14,338,217		14,180,818
Weighted average shares outstanding, diluted		14,357,162		14,291,132		14,338,217		14,180,818

See accompanying notes to financial statements.

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Spherix Incorporated

Consolidated Balance Sheets

		Sept. 30, 2008 (Unaudited)		December 31, 2007
ASSETS				
Current assets				
Cash and cash equivalents	$	7,474,408	$	15,839,959
Short-term investments		2,944,664		
Trade receivables		431,662		38,581
Other receivables		15,841		167,229
Prepaid expenses and other assets		186,957		372,242
Total current assets		11,053,532		16,418,011
Property and equipment, net of accumulated depreciation of $149,350 and $599,266		332,681		55,088
Patents and intangibles, net of accumulated amortization of $37,532 and $110,599		15,488		32,371
Deposit		35,625		35,625
Total assets	$	11,437,326	$	16,541,095
LIABILITIES AND STOCKHOLDERS EQUITY				
Current liabilities				
Accounts payable and accrued expenses	$	648,778	$	1,046,537
Accrued salaries and benefits		346,198		362,334
Income taxes payable				50,738
Deferred revenue		14,842		15,165
Total current liabilities		1,009,818		1,474,774
Deferred compensation		595,000		609,000
Deferred rent		143,347		6,531
Total liabilities		1,748,165		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, $.005 par value, 50,000,000 shares authorized; 14,437,600 and 14,399,140 issued and 14,357,162 and 14,318,702 shares outstanding at September 30, 2008 and December 31, 2007, respectively		72,188		71,996
Paid-in capital in excess of par value		27,594,546		27,508,418
Treasury stock, 80,438 shares at cost at September 30, 2008, and December 31, 2007		(464,786)		(464,786)
Accumulated deficit		(17,512,787)		(12,664,838)
Total stockholders equity		9,689,161		14,450,790
Total liabilities and stockholders equity	$	11,437,326	$	16,541,095

See accompanying notes to financial statements.

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Spherix Incorporated

Consolidated Statements of Cash Flows

(Unaudited)

	Nine Months Ended September 30, 2008	2007
Cash flows from operating activities		
Net (loss) income	$ (4,847,949)	$ 1,257,775
Adjustments to reconcile net (loss) income to net cash used in operating activities:		
Income from discontinued operations		(4,912,694)
Income tax benefit		(3,408,015)
Depreciation and amortization	60,146	143,142
Gain on sale of fixed assets	(14,701)	
Stock-based compensation	86,320	65,627
Patent write-off	9,861	51,158
Changes in assets and liabilities:		
Receivables	(241,693)	(404,729)
Prepaid expenses and other assets	185,285	84,457
Accounts payable and accrued expenses	(431,331)	1,819,796
Deferred rent	(13,184)	(149,138)
Deferred compensation	(14,000)	58,000
Deferred revenue	(323)	12,700
Net cash used in activities of continuing operations	(5,221,569)	(5,381,921)
Net cash used in activities of discontinued operations		(93,601)
Net cash used in operating activities	(5,221,569)	(5,475,522)
Cash flow from investing activities		
Proceeds from the sale of subsidiary	15,187	15,000,000
Purchases of property and equipment	(181,203)	(13,729)
Purchases of short-term investments	(2,944,664)	
Net cash (used in) provided by investing activities of continuing operations	(3,110,680)	14,986,271
Net cash used in investing activities of discontinued operations		(1,316,588)
Net cash (used in) provided by investing activities	(3,110,680)	13,669,683
Cash flows from financing activities		
Net change in book overdraft	(33,302)	5,046
Payments on capital lease obligations		(10,810)
Proceeds from issuance of common stock		757,500
Net cash (used in) provided by financing activities of continuing operations	(33,302)	751,736
Net cash used in financing activities of discontinued operations		(120,014)
Net cash (used in) provided by financing activities	(33,302)	631,722
Net (decrease) increase in cash and cash equivalents	(8,365,551)	8,825,883
Cash and cash equivalents, beginning of period	15,839,959	9,863,771
Cash and cash equivalents, end of period	$ 7,474,408	$ 18,689,654

See accompanying notes to financial statements.

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Spherix Incorporated

Notes to 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 September 30, 2008, the results of its operations for the three-month and nine-month periods ended September 30, 2008 and 2007, and its cash flows for the nine-month periods ended September 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 SFAS 157 with respect to 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 September 30, 2008, the Company had no financial liabilities.

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

			Fair Value Measurement Using					
Description		**Fair Value at Sept. 30, 2008**		**Quoted Market Prices(1)**		**Observable Inputs(2)**		**Unobservable Inputs(3)**
Debt securities	$	2,914,104	$	2,914,104	$		$	

(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 nine months ended September 30, 2007 are as follows:

Discontinued operations	**Three Months Ended September 30, 2007**	**Nine Months Ended September 30, 2007**
Revenue	$ 3,534,000	$ 15,371,000
Direct cost and operating expense	(2,815,000)	(13,202,000)
Selling, general and administrative expense	(359,000)	(1,749,000)
Interest revenue	38,000	170,000
Interest expense	(3,000)	(21,000)
Gain on sale of segment	8,739,000	8,567,000
Income from discontinued operations before taxes	$ 9,134,000	$ 9,136,000

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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 nine months ended September 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 nine-months ended September 30, 2008, the Company recognized $3,000 and $10,000 in stock-based compensation expense relating to 59,000 stock options awarded in February 2006, and for the three- and nine-months ended September 30, 2007, the Company recognized $7,000 and $21,000.

For the three- and nine-months ended September 30, 2008, the Company recognized $12,000 and $36,000 in stock-based compensation expense relating to 30,000 and 15,000 shares in restricted stock the Company granted in August 2008 and September 2008 to its Chief Executive Officer and President, respectively, and for the three- and nine-months ended September 30, 2007, the Company recognized $5,000.

For the three- and nine-months ended September 30, 2008, the Company recognized $40,000 in stock-based compensation expense related to 38,460 shares in restricted stock issued to its independent board of directors, and for the three- and nine-months ended September 30, 2007, the Company recognized $40,000 related to 19,140 shares.

A summary of option activity under the Company s employee stock option plan for the nine months ended September 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 September 30, 2008	216,700	$	7.36	0.7	$	
Exercisable at September 30, 2008	215,200	$	7.39	0.7	$	

As of September 30, 2008, there were approximately 1,500 unvested options to purchase common stock under the plans. An estimated compensation cost of $18,000 related to these unvested options is expected to be recognized over the next year and a half.

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 nine months ended September 30, 2008 and 2007 is summarized below.

	Three Months Ended Sept. 30, 2008	2007	Nine Months Ended Sept. 30, 2008	2007
Revenue				
BioSpherix	$	$	$ 5,000	$ 4,000
Health Sciences	308,000	58,000	709,000	58,000
Total revenue	$ 308,000	$ 58,000	$ 714,000	$ 62,000
Operating (Loss) Income and Loss Before Income Taxes				
BioSpherix	$ (1,315,000)	$ (2,092,000)	$ (3,193,000)	$ (4,474,000)
Health Sciences	131,000	45,000	276,000	45,000
General	(612,000)	(1,173,000)	(2,217,000)	(2,810,000)
Total operating loss	(1,796,000)	(3,220,000)	(5,134,000)	(7,239,000)
Interest income	69,000	118,000	294,000	176,000
Interest expense	(8,000)		(8,000)	
Loss from continuing operations before income taxes	$ (1,735,000)	$ (3,102,000)	$ (4,848,000)	$ (7,063,000)

	Sept. 30, 2008	Dec 31, 2007
Identifiable Assets		
BioSpherix	$ 36,000	$ 89,000
Health Sciences	432,000	85,000
General corporate assets	10,969,000	16,367,000
Total assets	$ 11,437,000	$ 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. Nasdaq has recently extended the period the Company has to regain compliance with the bid price requirement, until April 23, 2009. If the Company does not regain compliance by

April 23, 2009, Nasdaq will provide notice to the Company that the Common Stock will be delisted from Nasdaq. The Company will be holding a Special Meeting of Stockholders on November 17, 2008, to vote on a proposal to authorize the Board of Directors to effect a reverse split of the Company s common stock to address the bid price deficiency.

At September 30, 2008, the Company s stockholder s equity fell below the $10 million limit required for continued listing on the Nasdaq Global Market. Effective November 11, 2008, the Company has transferred its listing from the Nasdaq Global Market to the Nasdaq Capital Market, which has a lower stockholder s equity limit of $2.5 million.

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 as filed on Form 10-K for the year ended December 31, 2007, and the Company s Quarterly Reports on Form 10-Q for the periods ended March 31 and June 30, 2008, 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 and Forms 10-Q.

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,

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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 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

Prior to August 15, 2007, the Company s principal segments of operation 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 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. Nasdaq has recently extended the period the Company has to regain compliance with the bid price requirement, until April 23, 2009. If the Company does not regain compliance by April 23, 2009, Nasdaq will provide notice to the Company that the Common Stock will be delisted from Nasdaq. The Company will be holding a Special Meeting of Stockholders on November 17, 2008, to vote on a proposal to authorize the Board of Directors to effect a reverse split of the Company s common stock to address the bid price deficiency.

At September 30, 2008, the Company s stockholder s equity fell below the $10 million limit required for continued listing on the Nasdaq Global Market. Accordingly, the Company has transferred its listing from the Nasdaq Global Market to the Nasdaq Capital Market, which has a lower stockholder s equity limit of $2.5 million.

Results of Operations for the Three and Nine Months Ended September 30, 2008 and 2007

Revenue and Direct Contract and Operating Costs

Revenue and direct contract costs for the three and nine months ended September 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.

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Research and Development

Research and development expenditures relate solely to the BioSpherix segment and consist primarily of salaries and related personnel costs, fees paid to consultants and outside service providers and other expenses related to our efforts to commercialize Naturlose. We expense our research and development costs as they are incurred.

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 three and nine months ended September 30, 2007 consisted of start-up costs for the Phase 3 clinical trial and those of the same periods in 2008 consisted of costs related to both the Phase 3 clinical trial and a related Dose Range study.

Patient recruitment for the clinical trial has been slower than expected. 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 oversee the work of two India CRO s hired to execute the trial in India. These changes are expected to enhance recruitment and compliance in the trial. 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.

Selling, General and Administrative

Our selling, general and administrative expenses consist primarily of salaries and related expenses for executive, finance and other administrative personnel, professional fees and other corporate expenses, including facilities-related expenses. The decrease between years for the three and nine months ended September 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 increase in interest income between years for the nine months ended September 30, 2008 is a direct result of the earnings on the investment of the proceeds the Company received in August 2007 from the sale of the InfoSpherix subsidiary. The decrease between years for the three months ended September 30, 2008 is a result of both a decrease in interest rates and a decrease in the Company s investment balance as funds are expended to cover the Company s clinical trials and administrative costs.

Income Tax

The prior year s income tax benefit (expense) is related to the sale of InfoSpherix in the third quarter of 2007.

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 September 30, 2007 as follows:

Discontinued operations	**Three Months Ended September 30, 2007**	**Nine Months Ended September 30, 2007**
Revenue	$ 3,534,000	$ 15,371,000
Direct cost and operating expense	(2,815,000)	(13,202,000)
Selling, general and administrative expense	(359,000)	(1,749,000)
Interest revenue	38,000	170,000
Interest expense	(3,000)	(21,000)
Gain on sale of segment	8,739,000	8,567,000
Income from discontinued operations before taxes	$ 9,134,000	$ 9,136,000

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Liquidity and Capital Resources

Working capital as of September 30, 2008, was $10 million, which represents a $4.9 million decrease from working capital at December 31, 2007. R&D and marketing activity related to the commercialization of Naturlose accounted for approximately $3 million of the decrease in working capital.

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 $6 million over the next year including $4 million 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 is considering 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.

Spherix expects to receive in November 2008 the $2 million currently held in escrow from its sale of InfoSpherix.

The Company believes that its current financial resources may be sufficient to complete the Phase 3 trial, but will not be sufficient to prepare, submit and pursue the FDA application or take any other steps necessary to bring Naturlose to market as a Type 2 diabetes drug. The Company is therefore attempting to continue to develop Naturlose as a drug and to market, sell and/or license Naturlose to a pharmaceutical or other company which would complete the development. Additional funds may be required if the Phase 3 trials are further delayed, and will likely be required to engage in any substantial directed marketing activities noted above. The Company is considering the possibility of selling additional shares of its common stock as a means of raising additional funds.

Cash flow for the nine months ended September 30, 2008, consisted of $5.3 million used in operating activities (including approximately $3 million in R&D activity and related market research) and $3.1 used in investing activities (principally $2.9 million the Company invested in short-term debt securities) for a net decrease in cash and cash equivalents of $8.4 million.

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. As many of our costs are fixed, any additional delays in the Phase 3 trial could cause us to expend all of our funds before the trial is complete.

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,

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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 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 following risk factor and 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.

Our Financial Resources are Limited and We May Need to Raise Additional Capital in the Future to Continue our Business

As of September 30, 2008, the Company had cash and cash equivalents and marketable securities of approximately $10.4 million and expects to expend all or nearly all of this amount within the next two years. Our future capital requirements will depend on many factors, including the progress of the clinical trials and commercialization of Naturlose, as well as general and administrative costs. We will need to raise additional capital to continue our business beyond this period. The current economic crisis and its impact on the stock markets will most likely have a negative impact on our efforts to raise additional capital. We cannot ensure that additional funding will be available or, if it is available, that it can be obtained on terms and conditions we will deem acceptable. Any additional funding derived from the sale of equity securities is likely to result in significant dilution to our existing stockholders. In addition, we have received notice from the Nasdaq Stock Market that our common stock may be delisted from the Nasdaq Markets if we fail to achieve compliance with Nasdaq s $1.00 minimum bid price per share requirement by April 23, 2009. These matters involve risks and uncertainties that may prevent us from raising additional capital or may cause the terms upon

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which we raise additional capital, if additional capital is available, to be less favorable to us than would otherwise be the case.

Item 6. Exhibits

31.1	Certification of Chief Executive Officer of Spherix Incorporated pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
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: November 14, 2008	By:	/s/ Claire L. Kruger Claire L. Kruger Chief Executive Officer and Chief Operating Officer
Date: November 14, 2008	By:	/s/ Robert L. Clayton Robert L. Clayton, CPA Chief Financial Officer and Treasurer