

SPO Medical Inc
Form 10-Q
November 16, 2009

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

FORM 10-Q

MARK ONE

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the Quarterly Period ended September 30, 2009; 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 registrant specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

25-1411971
(I.R.S. Employer Identification No.)

Beit Hapa'amon, Suite 209, 20 Hata'as Street, Kfar Saba, Israel
(Address of principal executive offices, including zip code)

972 9 764-3570
(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer (Do not check if a smaller reporting company) smaller reporting company

Indicate by a check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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As of November 16, 2009, SPO Medical Inc. had outstanding 25,183,007 shares of common stock, par value \$0.01 per share.

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FORWARD LOOKING STATEMENTS

THE FOLLOWING DISCUSSION SHOULD BE READ IN CONJUNCTION WITH THE FINANCIAL STATEMENTS AND RELATED NOTES CONTAINED ELSEWHERE IN THIS FORM 10-Q. 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; EXPECTATIONS AS TO MARKET ACCEPTANCE OF THE COMPANY'S TECHNOLOGY; 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. THESE FACTORS INCLUDE, BUT ARE NOT LIMITED TO, THE COMPANY'S INABILITY TO OBTAIN NECESSARY FINANCING; GOING CONCERN QUALIFICATIONS; THE COMPETITIVE ENVIRONMENT GENERALLY AND IN THE COMPANY'S SPECIFIC MARKET AREAS; CHANGES IN TECHNOLOGY; THE AVAILABILITY OF AND THE TERMS OF FINANCING; INFLATION; CHANGES IN COSTS AND AVAILABILITY OF GOODS AND SERVICES; ECONOMIC CONDITIONS IN GENERAL AND IN THE COMPANY'S SPECIFIC MARKET AREAS; DEMOGRAPHIC CHANGES; CHANGES IN FEDERAL, STATE AND /OR LOCAL GOVERNMENT LAW AND REGULATIONS AFFECTING THE TECHNOLOGY; CHANGES IN OPERATING STRATEGY OR DEVELOPMENT PLANS; AND THE ABILITY TO ATTRACT AND RETAIN QUALIFIED PERSONNEL. 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.

SPO MEDICAL INC. AND ITS SUBSIDIARY

INTERIM CONSOLIDATED FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2009

U.S. DOLLARS IN THOUSANDS

UNAUDITED

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SPO MEDICAL INC.
CONSOLIDATED BALANCE SHEETS
U.S. dollars in thousands (except share data)

| | September 30, 2009 Unaudited | December 31, 2008 Audited |
|-------------------------------------------------|------------------------------------|---------------------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 297 | \$ 263 |
| Trade receivables, net | 95 | 224 |
| Prepaid expenses and other accounts receivable | 32 | 32 |
| Inventories | 402 | 850 |
| | 826 | 1,369 |
| LONG TERM INVESTMENTS | | |
| Deposits | 12 | 12 |
| Severance pay fund | 273 | 270 |
| | 285 | 282 |
| PROPERTY AND EQUIPMENT, NET | | |
| | 159 | 189 |
| Total net assets | \$ 1,270 | \$ 1,840 |
| LIABILITIES AND STOCKHOLDERS' DEFICIENCY | | |
| Current Liabilities | | |
| Short-term loans, net | \$ 1,122 | \$ 1,138 |
| Trade payables | 131 | 298 |
| Employees and Payroll accruals | 867 | 492 |
| Accrued expenses and other liabilities | 922 | 785 |
| | 3,042 | 2,713 |
| Long-Term Liabilities | | |
| Accrued severance pay | 552 | 492 |
| STOCKHOLDERS' DEFICIENCY | | |
| Stock capital | 252 | 248 |
| Additional paid-in capital | 14,315 | 14,241 |
| Accumulated deficit | (16,891) | (15,854) |
| | (2,324) | (1,365) |
| Total liabilities and stockholders' deficiency | \$ 1,270 | \$ 1,840 |

SPO MEDICAL INC. AND ITS SUBSIDIARY
 CONDENSED INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS
 U.S. dollars in thousands (except share data)

| | Nine months ended September 30, Unaudited | | Three months ended September 30, Unaudited | |
|-------------------------------------------------------------------------------------------------------|-------------------------------------------------|------------|--------------------------------------------------|------------|
| | 2009 | 2008 | 2009 | 2008 |
| Revenues | \$ 933 | \$ 2,421 | \$ 228 | \$ 253 |
| Cost of revenues | 568 | 1,321 | 128 | 134 |
| Gross profit | 365 | 1,100 | 100 | 119 |
| Operating expenses | | | | |
| Research and development, net | 418 | 964 | 153 | 242 |
| Selling and marketing | 109 | 428 | 22 | 104 |
| General and administrative | 649 | 1,030 | 192 | 274 |
| Re-organization expenses | - | 62 | - | 62 |
| Total operating expenses | 1,176 | 2,484 | 367 | 682 |
| Operating loss | 811 | 1,384 | 267 | 563 |
| Financial expenses, net | 226 | 277 | 96 | 25 |
| Loss for the period | \$ 1,037 | \$ 1,661 | \$ 363 | \$ 588 |
| Basic and diluted loss per ordinary share | \$ 0.04 | \$ 0.07 | \$ 0.01 | \$ 0.02 |
| Weighted average number of shares outstanding used in computation of basic and diluted loss per share | 26,133,205 | 23,618,598 | 26,346,119 | 24,518,619 |

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

SPO MEDICAL INC. AND ITS SUBSIDIARY
CONDENSED INTERIM STATEMENTS OF CHANGES IN STOCKHOLDERS DEFICIENCY
U.S. dollars in thousands

| | Stock capital | Additional paid-in capital | Accumulated deficit | Total |
|---------------------------------------------------------------------------------------------|---------------|----------------------------------|------------------------|------------|
| Balance as of January 1, 2007 | \$ 193 | \$ 9,954 | \$ (11,049) | \$ (902) |
| Issuance of stock capital, net | 14 | 1,169 | | 1,183 |
| Exercise of stock options | 2 | 8 | | 10 |
| Benefit on warrants issued in connection with credit line | | 19 | | 19 |
| Benefit resulting from changes to warrant terms | | 41 | | 41 |
| Issuance of ordinary stock upon exercise of warrants and conversion of loans | 6 | 510 | | 516 |
| Amortization of deferred stock-based compensation related to options granted to employees | | 110 | | 110 |
| Amortization of deferred stock-based compensation related to options granted to directors | | 58 | | 58 |
| Amortization of deferred stock-based compensation related to options granted to consultants | | 35 | | 35 |
| Net Loss | | | (1,604) | (1,604) |
| Balance as of December 31, 2007 | \$ 215 | \$ 11,904 | \$ (12,653) | \$ (534) |
| Issuance of ordinary stock upon conversion of loans and accrued interest | 10 | 512 | | 522 |
| Issuance of stock capital, net | 8 | 549 | | 557 |
| Issuance of ordinary stock to service providers | 9 | 356 | | 365 |
| Issuance of ordinary stock on cancellation of distribution agreement | 4 | 481 | | 485 |
| Benefit on issuance of warrants in connection with conversion of loans and accrued interest | | 105 | | 105 |
| Amortization of deferred stock-based compensation related to options granted to employees | | 249 | | 249 |
| Issuance of ordinary stock in consideration of unpaid legal fees | 2 | 28 | | 30 |
| Benefit on issuance of options and re-pricing of options granted to directors | | 10 | | 10 |
| Benefit on issuance of penny warrants to service providers | | 47 | | 47 |
| Net Loss | | | (3,201) | (3,201) |
| Balance as of December 31, 2008 | \$ 248 | \$ 14,241 | \$ (15,854) | \$ (1,365) |
| Issuance of ordinary stock to service providers | 4 | 28 | | 32 |
| Issuance of ordinary stock in consideration of unpaid accrued interest | *- | 6 | | 6 |
| Amortization of deferred stock-based compensation related to options granted to employees | | 40 | | 40 |
| Net Loss | | | (1,037) | (1,037) |
| Balance as of September 30, 2009, Unaudited | \$ 252 | \$ 14,315 | \$ (16,891) | \$ (2,324) |

* Less than \$1

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

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SPO MEDICAL INC. AND ITS SUBSIDIARY
CONDENSED INTERIM STATEMENTS OF CASH FLOWS
U.S. dollars in thousands

| | Nine months ended September 30, Unaudited | | Three months ended September 30, Unaudited | |
|--------------------------------------------------------------------------|----------------------------------------------------|---------------|-----------------------------------------------------|---------------|
| | 2009 | 2008 | 2009 | 2008 |
| Cash Flows from Operating Activities | | | | |
| Loss for the period | \$ (1,037) | \$ (1,661) | \$ (363) | \$ (588) |
| Adjustments to reconcile loss to net cash used in operating activities: | | | | |
| Depreciation | 30 | 30 | 10 | 9 |
| Stock-based compensation expenses | 40 | 135 | 9 | 21 |
| Amortization of loan discounts, net | - | 49 | - | - |
| Grant of ordinary stock to service providers | 32 | 105 | 27 | 25 |
| Benefit resulting from conversion of loans | - | 105 | - | - |
| Increase (decrease) in accrued severance pay, net | 57 | (20) | 29 | 10 |
| Increase in accrued interest payable on loans | 83 | 72 | 31 | 18 |
| Changes in assets and liabilities: | | | | |
| Decrease in trade receivables | 129 | 289 | 49 | 378 |
| Decrease (increase) in other receivables | - | 58 | (2) | 48 |
| Decrease (increase) in inventories | 448 | (364) | 69 | (388) |
| Increase (decrease) in trade payable | (167) | 20 | (1) | 19 |
| Increase in employees and payroll accruals | 375 | 79 | 60 | 40 |
| Increase in other payables and accrued expenses | 137 | 126 | 20 | 117 |
| Net cash provided by (used in) operating activities | 127 | (977) | (62) | (291) |
| Cash Flows from Investing Activities | | | | |
| Decrease in long term deposits | - | 2 | - | 2 |
| Purchase of property and equipment | - | (52) | - | (34) |
| Net cash used in investing activities | - | (50) | - | (32) |
| Cash Flows from Financing Activities | | | | |
| Issuance of stock capital | - | 557 | - | - |
| Exercise of stock options | - | - | - | - |
| Repayment of short-term loans | (93) | (322) | (23) | - |
| Net cash provided by (used in) financing activities | (93) | 235 | (23) | - |
| Increase (decrease) in cash and cash equivalents | 34 | (792) | (85) | (323) |
| Cash and cash equivalents at the beginning of the period | 263 | 1,242 | 382 | 773 |
| Cash and cash equivalents at the end of the period | \$ 297 | \$ 450 | \$ 297 | \$ 450 |
| Non cash transactions | | | | |
| Issuance of ordinary stock upon conversion of loans and accrued interest | \$ - | \$ 461 | \$ - | \$ 60 |
| | \$ - | \$ 485 | \$ - | \$ - |

Issuance of ordinary stock on settlement of distribution
agreement

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

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SPO MEDICAL INC. AND ITS SUBSIDIARY
Notes to interim financial statements

Note 1 - General

SPO Medical Inc. (hereinafter referred to as "SPO" or the "Company") was originally incorporated 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 between 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 merger between UNDI and the SPO Ltd was accounted for as a reverse merger. As the shareholders of SPO Ltd received the largest ownership interest in the Company, SPO Ltd was determined to be the "accounting acquirer" in the reverse acquisition. As a result, the historical financial statements of the Company were replaced with the historical financial statements of the SPO Ltd.

The Company and its subsidiary, SPO Ltd., are collectively referred to as the "Company".

Note 2 - Basis of Presentation

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 with Rule 8-03 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 September 30, 2009 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 included in annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. Operating results for the three and nine months ended September 30, 2009, are not necessarily indicative of the results that may be expected for the year ended December 31, 2009.

In June 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 168, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles" (SFAS No. 168) [ASC 105-10]. SFAS No. 168 replaces SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles" and establishes the FASB Accounting Standards Codification (Codification) as the source of authoritative accounting principles recognized by the FASB to be applied by non-governmental entities in the preparation of financial statements in conformity with GAAP. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The Codification has become the exclusive authoritative reference effective September 30, 2009.

SPO MEDICAL INC. AND ITS SUBSIDIARY

Notes to interim financial statements

Note 3 - Going Concern

As reflected in the accompanying financial statements, the Company's operations for the nine and three months ended September 30, 2009, resulted in a net loss of \$1,037 and \$363 respectively and the Company's balance sheet reflects a net stockholders' deficit of \$2,324. 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 seeking additional cash from current and potential stockholders and increasing the marketing of its current and new products. As disclosed in previous filings with the Securities and Exchange Commission, management has been attempting to raise capital from current and potential stockholders and plans to continue these efforts. Failure to raise additional cash may require the Company to carry out further cost cutting measures, including the laying off of additional employees.

Note 4 - Financial Expenses

Financial expenses, net, for the nine and three months ended September 30, 2009 were \$226 and \$96, respectively. The principal components of the financial expenses for the nine and three months ended September 30, 2009 were: (i) interest in respect of debt instruments issued by the Company between April 2005 and October 2006, \$84 and \$32, respectively, (ii) non-cash amortization expenses \$21 and \$16, respectively, and (iii) exchange rate differences and others finance expenses, \$121 and \$48, respectively

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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-K FOR THE YEAR ENDED DECEMBER 31, 2008.

OVERVIEW

SPO Medical Inc. ("we" or the "Company") is engaged in the design, development and marketing of non-invasive pulse oximetry technologies to measure blood oxygen saturation and heart rate. We have developed and patented proprietary technology that enables the measurement of heart rate and oxygen saturation levels in the blood which is known as Reflectance Pulse Oximetry (RPO). Using RPO, a sensor can be positioned on various body parts, hence minimizing problems from motion artifacts and poor perfusion. The unique design features contribute to substantially lower power requirements and enhances wireless, stand-alone configurations facilitating expanded commercial possibilities.

We hold eight patents issued by the United States Patent and Trademark Office ("USPTO") covering various aspects of our unique RPO based technology. As further discussed below, our technologies are currently applied to products that are designed for use by the, homecare, professional medical care, sports, safety and search and rescue.

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.

We currently have five commercial products utilizing our unique oximetry technology. These are the (i) PulseOx 5500TM, a stand-alone commercial RPO spot check monitor for SpO2 and heart rate, (ii) Check MateTM, addresses the sports and aviation market's demand for a lightweight, inexpensive monitor for measuring SpO2 and heart rate during high-altitude activities, (iii) the PulseOx 7500TM, a monitor for extended monitoring of SpO2 and heart rate by means of RPO (the monitor is being initially marketed for pre screening of sleep apnea sufferers), (iv) PulseOX 6000 TM, a professional stand-alone commercial RPO spot check monitor for SpO2 and heart rate and (v) the PulseOX 6100 TM, a professional stand-alone hand held commercial RPO spot check monitor for SpO2 and heart rate. We currently have in various stages of development other non medical products utilizing our pulse oximetry technology, including a Baby Movement Monitor and a Sports Watch.

We need to raise additional funds on an immediate basis in order to meet our on-going operating requirements, pay outstanding loans in the aggregate approximate amount of \$1.1million and to realize our business plan. In response to the deteriorating global economic conditions that began in 2008, we have, since July 2008, reduced operating expenses in an attempt to conserve our cash resources. In July 2008 we significantly curtailed our non-essential product design and development, marketing activities and reorganized our product manufacturing and delivery system to "just-in-time" arrangements. We have terminated certain product development plans. During 2008, we began to defer part of management and employee salaries and benefits and such deferral continues to the present. As of November 16, 2009, we had four employees working on a full-time basis and 11 employees working on a part-time basis. If we

are unable to raise capital on an immediate basis, it may be necessary for us to take further measures to reduce our cash burn including laying-off additional personnel. No assurance can be given that we will be able to raise the needed capital. These conditions raise substantial doubt about our ability to continue as a going concern.

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.

REVENUE RECOGNITION

We generate revenues principally from sales of our products. Revenues from the sale of products 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 is probable and there are no remaining significant obligations. Delivery is deemed to have occurred upon shipment of products from any of our distribution centers.

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. Our write-off represents the excess of the carrying value, typically cost, over the amount we expect to realize from the ultimate sale or other disposal of inventory based upon our assumptions regarding forecasted consumer demand, inventory aging and technological obsolescence. If our estimates regarding consumer demand are inaccurate or changes in technology affect demand for certain products in an unforeseen manner, we may be exposed to losses or gains in excess of our established write-off that could be material.

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 accompanying notes. Actual results could differ from those estimates.

RESULTS OF OPERATIONS

COMPARISON OF THE NINE AND THREE MONTHS ENDED SEPTEMBER 30, 2009 AND THE NINE AND THREE MONTHS ENDED SEPTEMBER 30, 2008

REVENUES. Revenues for each of the nine and three months ended September 30, 2009 and 2008 were derived from our commercialized pulse oximetry product line, primarily the PulseOx 5500 and Check Mate. Revenues for the nine and three months ended September 30, 2009 were \$933,000 and \$228,000, respectively. Revenues for the corresponding periods in 2008 were \$2,421,000 and \$253,000, respectively. The decrease in revenues for each of the nine and three month periods ended September 30, 2009 compared to the corresponding periods in 2008 is attributable to the combined effect of a decrease in the volume of unit sales together with a reduction of the per unit price, both of which are attributable to the economic difficulties currently prevailing in our principal market, the United States, and the entry into the United States market of a significant number of relatively low cost products, primarily from China. Of the revenues earned in the nine and three months ended September 30, 2009, 42% and 43%, respectively, were attributable to a single customer.

COSTS OF REVENUES. Costs of revenues include all costs related to manufacturing products and services and consist primarily of direct material costs, shipping and salaries and related expenses for personnel. Costs of revenues for the nine and three months ended September 30, 2009 were \$568,000 and \$128,000, respectively. Costs of Revenues for the corresponding periods in 2008 were \$1,321,000 and \$134,000, respectively. The decrease in costs of revenues is consistent with the decrease in revenues and includes, an inventory write off in the amount of \$80,000 during the nine months ended September 30, 2009.

RESEARCH AND DEVELOPMENT EXPENSES, NET. Research and development expenses, net, consist primarily of expenses incurred in the design, development and testing of our products. These expenses consist primarily of salaries and related expenses for employees, contract design and testing services, supplies used and consulting and

license fees paid to third parties. Research and development expenses, net, for the nine and three months ended September 30, 2009 were \$418,000 and \$153,000, respectively. Research and development expenses net, for the corresponding periods in 2008 were \$964,000 and \$242,000, respectively. The decrease in research and development expenses during the nine and three months ended September 30, 2009 as compared to the corresponding periods in 2008 is primarily attributable to the decrease in the number of employees and the receipt in February and March 2009 of a grant in the amount of \$125,000 received from the Office of the Chief Scientist of the Government of Israel (“OCS”), which we recognized in the period ended March 31, 2009.

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 nine and three months ended September 30, 2009 were \$109,000 and \$22,000, respectively. Selling and marketing expenses for the corresponding periods in 2008 were \$428,000 and \$104,000, respectively. The decrease in selling and marketing expenses during 2009 is primarily attributable to the decrease in the number of employees as well as the decrease in the investment by us in marketing consultants and reseller support programs.

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 and accounting services. General and administrative expenses for the nine and three months ended September 30, 2009 were \$649,000 and \$192,000, respectively. General and administrative expenses for the corresponding periods in 2008 were \$1,030,000 and \$274,000, respectively. The decrease in general and administrative expenses during 2009 is primarily attributable to the recovery of a bad debt provision, which we recorded during the fourth quarter of 2008, the reduction in respect of amortization of stock based compensation expenses, and the reduction in the expenses recognized in respect of investor relations.

FINANCIAL EXPENSES, NET. Financial expenses, net, for the nine and three months ended September 30, 2009 were \$226,000 and \$96,000, respectively. Financial expenses, net, for the corresponding periods in 2008 were \$277,000 and \$25,000, respectively. The decrease in financial expenses, net, during the nine months ended September 30, 2009 compared to the corresponding period in 2008 is primarily attributable to the recognition in 2008 of non cash amortization of loan discounts in the amount of \$49,000 and one time non cash expenses relating to the issue of warrants for the conversion to equity of certain loan notes and accrued interest thereon in the amount of \$105,000. This reduction however was before the recognition of increased exchange rate losses in the amount of \$65,000 resulting from the strengthening of the Israeli Shekel in the respective periods, the effect of which was most significant during the three months ended September 30, 2009.

NET LOSS. For the nine and three months ended September 30, 2009, we had a net loss of \$1,037,000 and \$363,000 , respectively. Net losses for the corresponding periods in 2008 were \$1,661,000 and \$588,000, respectively. The decrease in net loss during 2009 period is primarily attributable to our reorganization process which was initiated in July 2008 in an attempt to reduce our operating costs significantly and better align our operations with our revenues.

LIQUIDITY AND CAPITAL RESOURCES

As at September 30, 2009, we had cash and cash equivalents of approximately \$297,000 compared to \$263,000 at December 31, 2008.

We generated net positive cash flows from operating activities of approximately \$127,000 during the nine months ended September 30, 2009 compared to \$977,000 negative cash flows during the nine months ended September 30, 2008. The increased cash flows is primarily attributable to our ability to support our current product sales from existing inventory of finished goods and raw materials. In addition we received in February 2009 and March 2009 of the grant from the OCS in the amount of \$125,000 as well as the contribution from cost reduction measures undertaken in the period.

In December 2005 we completed the private placement to certain accredited investors that we commenced in April 2005 for the issuance of up to \$1,544,000 of units of our securities, with each unit comprised of (i) our 18 month 6% promissory note (collectively, the "April 2005 Notes") and (ii) three year warrants to purchase up to such number of shares of our Common Stock as are determined by the principal amount of the Note purchased by such investor divided by \$ 0.85 (collectively the "April 2005 Warrants"). We and the holders of \$1,464,000 in principal amount of the April 2005 Notes subsequently agreed to (a) extend the maturity term of the April 2005 Notes through March 26, 2008, (b) extend the exercise period of the April 2005 Warrants from three to five years with an expiration date of September 26, 2010 and adjust the per share exercise price to \$0.60 and (c) increase the interest rate on the amounts outstanding under the April 2005 Notes to 8% per annum, effective July 12, 2006. Holders of notes in the principal amount of \$125,000 that agreed to the extension of the maturity date on the notes , have since exercised their warrants and converted the interest accrued there on into common stock; and a holder of an April 2005 Note in the principal amount of \$50,000 was repaid. The Amendment also provided that if we subsequently issue shares of our Common Stock at an effective per share exercise price less than that of the adjusted per share exercise price of the April 2005 Warrants during the adjusted exercise period, then the exercise price thereof is to be reduced to such lower exercise price, except for certain specified issuances. All of the extended notes, matured on March 26, 2008

In March 2008, we offered to the holders of the April 2005 Notes to apply the amounts payable to them on the April 2005 Notes, to the exercise price of the April 2005 Warrants, thereby exercising these warrants, and to convert into Common Stock the accrued interest on the 2005 Notes at a per share conversion price of \$0.60. Note holders who accepted this offer were issued new warrants for such number of shares of Common Stock equal to 25% of the number shares issued to them upon exercise of their existing warrants and conversion of the interest accrued on the note. The new warrants will be exercisable over three years at an exercise price of \$0.60. As of December 31, 2008, the holders

of approximately \$439,000 in principal amount have agreed to apply the principal amount owed to them to the exercise price of the April 2005 Warrants. Accordingly, approximately \$520,000 in amounts owed under the 2005 Notes have been converted into equity and, accordingly, an aggregate of 866,528 shares of our Common Stock have been issued upon exercise of the April 2005 Warrants and conversion of the interest owing on the April 2005 Notes. Under the terms of the offer, new warrants for 216,636 shares of our Common stock have been issued to these April 2005 Note holders, exercisable over three years from the date of issuance. Three note holders of the principal amount of \$200,000 have agreed to extend their loan for a further 24 months and we agreed to pay to them the interest accrued through the original maturity date of March 26, 2008 in the aggregate amount of \$40,000. Under the terms of the agreement with the extending note holders, we will issue to the extending holders new warrants for an aggregate of 50,000 shares of our Common stock, which warrants are exercisable for three years from issuance and contain the same operative terms, including exercise price, as the warrants that were originally issued in connection with the issuance of the April 2005 Notes. We have been informed by the holders of \$300,000 in principal amount of their election to not accept our offer, of which \$250,000 of principal and the accrued interest thereon has been repaid as of the date of the filing of this quarterly report. In February, 2009, we agreed with one of the note holders to repay \$25,000 in principal over a number of payments during the current financial year and to convert accrued interest to 26,500 shares of common stock. We have also made payments in the amount of \$11,000 during the three months ended September 30, 2009 to other holders in respect of principal and accrued interest. As of November 16, 2009, approximately \$884,000 in respect of the principal and accrued interest on the April 2005 Notes remains outstanding and, accordingly, under the terms of such notes, we are in default in respect of this amount. We continue to seek resolution to this matter; but no assurance can be provided that we will be successful in our efforts

In July 2006, we commenced a private placement of units of our securities, with each unit comprised of (i) our 8% month promissory note due 12 months from the date of issuance and (ii) warrants as described below, pursuant to which we raised \$550,000 (the maximum amount that could be raised from this offering). Under the terms of the offering, the principal and accrued interest is due in one balloon payment at the end of the twelve month period. Each purchaser of the notes received warrants, exercisable over a period of two years from the date of issuance, to purchase 16,250 shares of Common Stock for each \$25,000 of principal loaned, at a per share exercise price equal to the lower of \$1.50 or 35% less than any the offering price at an initial public offering of the Company's Common Stock during the warrant exercise period. During 2007, we offered to the holders of the notes to convert the principal and accrued interest into shares of the Company's Common Stock at a per share conversion price of \$0.90. As of September 30, 2009, the holders of \$238,000 of the principal amount agreed to convert the principal and accrued interest thereon into shares of our Common Stock. We repaid to a note holder the principal amount of \$75,000 and the accrued interest thereon. We have made payments to certain holders in respect of principal and accrued interest in the amount of \$12,000 during the three months ended September 30, 2009. As of November 16, 2009, approximately \$239,000 in respect of the principal and accrued interest on these notes remains outstanding and, accordingly, under the terms of such notes, we are in default in respect of this amount. We continue to seek resolution to this matter; but no assurance can be provided that we will be successful in our efforts.

We have previously received development grants from the Israeli Government, specifically from the OCS. Under the terms of these grants, we are required to make payments of royalties based on sales of products that have been developed using the funds received under these grants. Through September 30, 2009, we have accrued \$343,000 of royalties due to the OCS from past sales of our Pulse Oximetry products. In light of our current liquidity challenges, we have not made payments to the OCS in respect of these accrued royalties. We are currently negotiating with the OCS a resolution to this matter, though no assurance can be given that we will be successful in reaching any satisfactory arrangement.

As we previously disclosed in our annual report for the year ended December 31, 2008 on Form 10K, in order to conserve our cash resources, we have not be paying the full remuneration liabilities in respect of employees since July 2008. The deferral of salary payments and social benefits is being effected with the consent of the employees. As at September 30, 2009 we have recorded an accumulated liability to our employees in respect of unpaid salaries and social benefits due thereon in the aggregate amount of \$613,000.

As noted above, we need to raise additional funds on an immediate basis in order to be able to satisfy our cash requirements and fulfill our business plan over the next twelve months, pay outstanding loans in the approximate amount of \$1.1 million and deferred royalties in the approximate amount of \$343,000, which are currently due and payable. Without raising additional funds on an immediate basis, whether through the issuance of our securities, licensing fees for our technology or otherwise, we will also not be able to maintain operations as presently conducted or to commercially launch any new products that are currently under design and development. As previously disclosed in our periodic reports, we have been actively seeking additional capital. In response to the general deterioration in the general economic environment which began in 2008, we have taken several cost-cutting measures. We have laid-off a number of our employees and as of November 16, 2009, we have four full time employees on staff and 11 part-time employees. Additionally, we have been forced to delay payments to most of our vendors and defer salaries for management and employees. If we are unable to raise additional capital on an immediate basis and/or our employees demand the immediate payment of amounts due them that have been deferred, we may be forced lay-off additional employees and either restructure or cease operations entirely. At the present time, we have no commitments for financing and no assurance can be given that we will be able to raise capital on commercially acceptable terms or at all. We may not be successful in our efforts to raise additional funds. Even if we raise cash to meet our immediate working capital needs, our cash needs could be heavier than anticipated in which case we could be forced to raise additional capital. Our auditors included a "going concern" qualification in their auditors' report for the year ended December 31, 2008. Such "going concern" qualification may make it more difficult for us to raise funds when needed.

In addition, the current economic situation may further complicate our capital raising efforts.

Additional equity financings is likely to be dilutive to holders of our Common Stock and debt financing, if available, may require us to be bound by significant repayment obligations and covenants that restrict our operations.

ITEM 4(T). 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 September 30, 2009, 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 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

The following paragraph sets forth certain information with respect to all securities sold by us during the three months ended September 30, 2009 without registration under the Securities Act.

In July 2009, we issued to a consultant 200,000 shares of our common stock, at per share purchase price of \$0.01 in respect of an agreement with the consultant for financial advisory services.

In August 2009, we entered into an agreement with a service provider for investor relations services. Under the terms of the agreement the service provider received 150,000 shares of our common stock, at per share purchase price of \$0.01.

All of the securities issued in the transactions described above were issued without registration under the Securities Act in reliance upon the exemptions provided in Section 4(2) of the Securities Act or Regulation S under such Securities Act. Except with respect to securities sold under Regulation S, the recipients of securities in each such transaction acquired the securities for investment only and not with a view to or for sale in connection with any distribution thereof. Appropriate legends were affixed to the share certificates issued in all of the above transactions. Each of the recipients represented that they were "accredited investors" within the meaning of Rule 501(a) of Regulation D under the Securities Act, or had such knowledge and experience in financial and business matters as to be able to evaluate the merits and risks of an investment in its common stock. All recipients had adequate access, through their relationships with the Company and its officers and directors, to information about the Company. None of the transactions described above involved general solicitation or advertising.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

We first disclosed in the quarterly report on Form 10-Q for the three months ended March 31, 2008, that we had not repaid principal and accrued interest that became due during the quarterly period covered by such report. We disclosed in subsequent quarterly reports on Form 10-Q additional amounts that became due in ensuing quarterly periods and the results of our efforts to resolve these matters. As of September 30, 2009, there continues to remain outstanding, in the aggregate, approximately \$1.1 million of such principal and accrued interest. We continue to hold discussions with certain of the holders of the outstanding debt in an attempt to resolve this matter; no assurance can be provided that we will be successful in concluding any mutually acceptable resolution of this matter.

ITEM 6. EXHIBITS.

- | | |
|------|---------------------------------------------------------------|
| 31.1 | Rule 13a - 14(a) Certification of Principal Executive Officer |
| 31.2 | Rule 13a - 14(a) Certification of Principal Financial Officer |
| 32.1 | Section 1350 Certification of Principal Executive Officer |
| 32.2 | Section 1350 Certification of Principal Financial Officer |

SIGNATURES

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

DATE: November 16, 2009

SPO MEDICAL INC.

/s/ MICHAEL BRAUNOLD
MICHAEL BRAUNOLD
PRESIDENT AND CHIEF EXECUTIVE OFFICER

PRINCIPAL FINANCIAL AND
ACCOUNTING OFFICER

DATE: November 16, 2009

BY

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