SPO Medical Inc
Form 10QSB
July 13, 2005

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

|X| QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the quarterly period ended March 31, 2005

OR

|_| TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ___________________ to ___________________

Commission File No. 0-11772

SPO MEDICAL INC.

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

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

21860 Burbank Blvd., North Building, Suite 380 Woodland Hills, California	91367
(Address of principal executive offices)	(Zip Code)

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

(Former name, former address and former fiscal year, if changed since last report.)

Check whether the Registrant (1) filed all documents and reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or 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 |_|

As of July 12, 2005, there were issued and outstanding 17,053,621 shares of common stock of the registrant.

Transitional small business disclosure format

Yes |_| No |X|

Quarterly Report on Form 10-QSB

Table of Contents

SPO Medical Inc. and Subsidiaries
Condensed Consolidated Balance Sheets

	March 31 2005 (Unaudited)	Dece
ASSETS		
Current assets:		

Cash	$ 633	$
Prepaid expenses and other current assets	14,000	
Total current assets	$ 14,633	$
LIABILITIES AND STOCKHOLDERS' DEFICIENCY		
Current liabilities:		
Notes payable, in default	$ 65,888	$
Advances on potential acquisition	2,384	
Accounts payable	206,941	
Accrued expenses	55,514	
Due to related parties	284,785	
Contract payable	55,571	
Total current liabilities	671,083	
Commitments and Contingencies		
Stockholders' deficiency		
Series A convertible preferred stock, $.01 par value; 2,000,000 authorized; none issued and outstanding	--	
Common stock, $.01 par value; 50,000,000 shares authorized; 1,722,034 shares issued and outstanding at March 31, 2005 and December 31, 2004	17,220	
Additional paid-in capital	59,786,689	59
Accumulated deficit	(60,460,359)	(60
Total stockholders' deficiency	(656,450)	
Total liabilities and stockholders' deficiency	$ 14,633	$

See notes to unaudited condensed consolidated financial statements

SPO Medical Inc. and Subsidiaries

Condensed Consolidated Statements of Operations
(Unaudited)

	For the Three Months Ended March 31	
	2005	2004
Revenues:	$ --	$ --
Operating costs and expenses:		
General and administrative	2,482	143
Total operating costs and expenses	2,482	143

Operating loss	(2,482)	(143
Other income (expense):		
Interest expense	(1,565)	(1,565
Total other income (expenses)	(1,565)	(1,565
Net loss	$ (4,047)	$ (1,708
Net loss per common share - basic and diluted	Nil	Nil
Weighted average shares outstanding - basic and diluted	1,722,034	1,267,717

See notes to unaudited condensed consolidated financial statements

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SPO Medical Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(Unaudited)

	For the three months ended March 3	
	2005	2004
Operating activities:		
Net loss	$ (4,047)	$ (1,
Adjustments to reconcile net loss to net cash provided by operating activities:		
Changes in operating assets and liabilities:		
Prepaid expenses and other current assets	2,339	
Accounts payable	9,766	
Accrued expenses	1,444	1,
Net cash provided by operating activities	9,502	
Financing activities:		
Repayment of funds related to advances for reverse merger	(16,466)	
Net cash used in financing activities	(16,466)	
Net decrease in cash	(6,964)	
Cash at beginning of period	7,597	
Cash at end of period	$ 633	$

See notes to unaudited condensed consolidated financial statements

SPO Medical Inc. and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2005

(Unaudited)

1. Basis of Presentation

SPO Medical Inc., formerly known as United Diagnostic, Inc. (hereinafter referred to as "SPO" or the "Company"), was originally organized under the laws of the State of Delaware in September 1981 under the name "Applied DNA Systems, Inc." On November 16, 1994, the Company changed its name to "Nu-Tech Bio-Med, Inc." On December 23, 1998, the Company changed its name to United Diagnostic, Inc. Effective April 21, 2005, the Company changed its name to its present name, SPO Medical Inc. pursuant to a Capital Stock Exchange Agreement ("Exchange Agreement") entered into on February 28, 2005, as amended and restated on April 21, 2005. One of the Company's wholly-owned subsidiaries, Analytical Biosystems Corp. ("ABC") (inactive since November 3, 1997), was organized under the laws of the State of Delaware in August, 1985. On October 21, 1996, the Company acquired substantially all of the medical billing service assets of Prompt Medical Billing, Inc. through the Company's wholly-owned subsidiary, NTBM Billing Services Inc. (inactive since April, 1998), organized under the laws of the State of Delaware on September 10, 1996. .

The unaudited accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-QSB and Article 10 of Regulation S-B. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management of SPO, the accompanying unaudited condensed consolidated financial statements contain all adjustments necessary to make the financial statements not misleading. Operating results for the three months ended March 31, 2005, are not necessarily indicative of the results that may be expected for the year ending December 31, 2005. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-KSB for the year ended December 31, 2004.

The condensed consolidated financial statements have been prepared on the basis that the Company will continue as a going concern, which assumes the realization of assets and satisfaction of liabilities in the normal course of business. The Company, for the three months ended March 31, 2005, did not have any revenue generating operations, had sustained net losses of $4,047 and $1,708, respectively during the three months ended March 31, 2005, and 2004, is not in compliance with certain terms of its notes payable, and has expended virtually all of its cash. The amount of stockholders' deficiency and working capital deficiency at March 31, 2005, was $656,450. These conditions raise substantial doubt about the Company's ability to continue as a going concern. During April and May 2005, the Company, in connection with the reverse acquisition

1. Basis of Presentation - continued

discussed in Note 5, raised approximately $420,000. The Company will continue to seek to raise additional debt and/or equity financing; however, there is no assurance that it will be successful in that endeavor and liquidate its liabilities. The condensed consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities or any other adjustments that might be necessary should the Company be unable to continue as a going concern.

Pursuant to the Acquisition Transaction, the Financial Statements have been retroactively restated for a forward split of 2.65285 to 1 basis during 2005.

2. Due to Related Parties

Due to related parties aggregating $284,785 at March 31, 2005, represent advances through December 31, 2004, to the Company by its former Chief Executive Officer and a former board member and accrued and unpaid salary to the Company's former Chief Executive Officer. Such advances are non-interest bearing and are due on demand.

3. Note Payable-Default

In connection with a series of loans obtained during 1993 and 1994 by the Company from the State of Rhode Island Economic Development Small Business Loan Fund Corporation ("SBLFC") in the principal aggregate amount of $791,000, the Company executed two patent security agreements granting the SBLFC a security interest in ABC's patents to secure $541,000 of the $791,000 of SBLFC loans. All of the SBLFC loans, including those subject to patent security interests, were further secured by a security interest in the Company's accounts receivable, inventory and equipment. Each of these loans were for a term of five years from its respective loan date, bearing interest at the rate of 5.4% per annum and, as to each loan, after the first year, is amortized monthly as to principal and interest. In June 1998, the terms of these loans were modified to 9.5% interest with principal due on demand. The aggregate amount of monthly interest payments is approximately $600 per month. The Company is not in compliance with certain terms of these loans which have an outstanding balance of $65,888 at March 31, 2005. In the event that the Company, for whatever reason, is unable to continue to meet its loan repayment obligations, the assets which are pledged will be subject to the rights of the SBLFC as a secured party. Further, until the SBLFC loans are repaid, it is unlikely that the Company or ABC will be able to obtain additional secured financing utilizing this collateral as security for new loans.

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4. Advances from Target Company on Potential Acquisition

In connection with the transaction discussed in Note 5, the Company, as of March 31, 2005 was advanced an aggregate of $128,800 from the target company for the purpose of paying certain costs associated with the transaction and to liquidate certain liabilities. Of the $128,800 advanced to the Company, $126,416 has been used to pay for expenses related to the potential acquisition. The balance amounting to $2,384 is carried as an advance on the balance sheet until it is utilized.

5. Subsequent Event

Effective February 28, 2005, the Company entered into an Exchange Agreement among the Company, SPO Ltd., and the shareholders of SPO Ltd., providing for the acquisition by the Company of all of the issued and outstanding shares of SPO Ltd. (the "Acquisition Transaction") in exchange for 5,769,106 of the Company's common stock. On April 21, 2005, the Exchange Agreement was amended and restated. The closing of the transactions contemplated in the Restated Exchange Agreement and the acquisition by the Company of all of the issued and outstanding ordinary shares of SPO Ltd. was completed on April 21, 2005. Pursuant to Restated Exchange Agreement, the Company issued to the shareholders of SPO Ltd. an aggregate of 5,769,106 shares of Common Stock, representing approximately 90% of the Common Stock issued and outstanding. As a result of the Acquisition Transaction, SPO Ltd. became a wholly owned subsidiary of the Company as of April 21, 2005. Upon consummation of the Acquisition Transaction, the Company effectuated a forward stock split of the Company's Common Stock issued and outstanding after giving effect to the transactions contemplated by Restated Exchange Agreement on a 2.65285:1 basis. As the former shareholders of SPO Ltd. own 90% of the Company's issued and outstanding shares, the acquisition of SPO Ltd. is deemed to be a reverse acquisition for accounting purposes.

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5. Subsequent Event - continued

In order to facilitate the Acquisition Transaction, and to raise working capital, on April 21, 2005, the Company commenced a private placement (the "Private Placement") to certain private and institutional investors of up to $1,150,000 by the sale of units of its securities, with each unit comprised of (i) its 18 month 6% Promissory Note (the "Notes") and (ii) two year warrants (the "Warrants") to purchase up to such number of shares of Common Stock of the Company as are determined by the principal amount of the Note being purchased by such investor divided by $ 0.85, at a per share exercise price of $0.85. If Notes in the aggregate principal amount of $1,150,000 are issued, the maximum number of shares of Common Stock issuable upon exercise of the Warrants will be 1,352,942. Under the Private Placement, subscription amounts are deposited into an escrow account. As of July 7, 2005, an aggregate of $419,827 in principal amount of notes were sold to accredited investors and, in connection therewith, warrants to purchase up to approximately 493,915 shares of the Company's common stock were issued. The securities were issued in reliance upon an exemption from registration under the Securities Act of 1933, as amended.

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

Safe Harbor Statement

Certain statements in this Form 10-QSB, including information set forth under Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operations" constitute or may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 (the "Act"). Forward-looking statements included in this Form 10-QSB or hereafter included in other publicly available documents filed with the Securities and Exchange Commission, reports to the Company's stockholders and other publicly available statements issued or released by the Company involve known and unknown risks, uncertainties, and other factors, including, but not limited to, the ability of the Company to identify and acquire a viable operating business and all of the risks (known and unknown) relating to any such acquired business; and the ability of the Company to obtain additional funds from either the sale of equity securities or from loans on commercially reasonable terms satisfactory to the Company. These and other risks could cause the Company's actual results, performance (financial or operating) or achievements to differ from the anticipated future results, performance (financial or operating) achievements expressed or implied by such forward-looking statements. Such anticipated future results are based upon management's best estimates based upon current conditions and the most recent results of operations.

Three months ended March 31, 2005, compared with three months ended March 31, 2004

Results of Operations

The Company reported no operating revenues for the three months ended March 31, 2005, and 2004.

Total operating costs and expenses for the three months ended March 31, 2005, were $2,482 (net of a reimbursement from the target company of $61,916 for expenses associated with a potential acquisition) compared to $143 for the three months ended March 31, 2004. The target company has agreed to reimburse the Company for expenses associated with the potential acquisition.

Interest expense for the three months ended March 31, 2005, and 2004 was $1,565 for interest associated with the State of Rhode Island Small Business Loan Fund outstanding loan principal.

Net loss for the three months ended March 31, 2005, was $4,047 as compared to $1,708 for the three months ended March 31, 2004.

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Liquidity and Capital Resources

At March 31, 2005, the Company had $633 in cash. In connection with the transaction discussed in Note 5, the Company, as of March 31, 2005 was advanced $128,800 from the target company for expense reimbursements to provide cash for certain expenses associated with the preparation, printing and filing of certain SEC documents. The Company has expended virtually all of its cash as of March 31, 2005.

Total current assets were $14,633 at March 31, 2005, as compared to $23,936 at December 31, 2004. Prepaid expenses and other current assets are primarily due to a credit balance with the State of Delaware due to the overpayment of franchise taxes.

Total current liabilities at March 31, 2005, were $671,083 as compared to $676,339 at December 31, 2004. The decrease of $5,256 is primarily due to the reduction of advances payable from the target company which are being used to fund the costs of the reverse acquisition.

Plan of Operations and Requirement for Additional Funds

The Company, as of March 31, 2005, did not have any revenue generating operations, had sustained net losses of $4,047 and $1,708, respectively during the three months ended March 31, 2005, and 2004, is not in compliance with certain terms of its notes payable, and has expended virtually all of its cash.

The amount of stockholders' deficiency and working capital deficiency at March 31, 2005, was $656,450. These conditions raise substantial doubt about the Company's ability to continue as a going concern. During April and May 2005, the Company, in connection with the reverse acquisition discussed below, raised approximately $420,000. The Company will continue to seek to raise additional debt and/or equity financing; however, there is no assurance that it will be successful in that endeavor and liquidate its liabilities. The condensed consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities or any other adjustments that might be necessary should the Company be unable to continue as a going concern.

Effective February 28, 2005, the Company entered into a Capital Stock Exchange Agreement (the "Exchange Agreement") among the Company, SPO Medical Equipment Ltd., a company incorporated under the laws of the State of Israel ("SPO Ltd."), and the shareholders of SPO Ltd., providing for the acquisition by the Company of all of the issued and outstanding shares of SPO Ltd. (the "Acquisition Transaction") in exchange for 5,769,106 shares of the Company's common stock, par value $0.01 per share (the "Common Stock"). On April 21, 2005, the Exchange Agreement was amended and restated (as so amended and restated the "Restated Exchange Agreement"). The closing of the transactions contemplated in the Restated Exchange Agreement and the acquisition by the Company of all of the issued and outstanding shares of SPO Ltd. was completed on April 21, 2005. Accordingly, SPO Ltd. became a wholly-owned subsidiary of the Company.

SPO Medical Equipment Ltd. ("SPO Ltd."), was organized under the laws of the State of Israel in August 1995. SPO Ltd. develops biosensor and microprocessor technologies using

reflectance pulse oximetry techniques for use in portable monitoring devices to capture life-saving and life-enhancing information within four key markets: medical care; home and remote-care; sports and wellness; and general security. SPO Ltd. has developed and patented proprietary technology that enables the use of pulse oximetry in a reflectance mode of operation i.e. a sensor that can be affixed to a single side of a body part. This technique is known as Reflectance Pulse Oximetry (RPO). Using RPO, a sensor can be positioned on various places of the body, hence minimizing problems of motion and poor profusion. In addition, its unique design results in substantially lower power requirements, which enable a wireless configuration with expanded commercial possibilities.

Pursuant to the Acquisition Transaction, the financial statements have been retroactively restated for a forward stock split of 2.65285 to 1 basis effected during April 2005.

Pledge of Principal Assets to Secure Existing Loans from the State of Rhode Island

In connection with a series of loans obtained during 1993 and 1994 by the Company from the State of Rhode Island Economic Development Small Business Loan Fund Corporation ("SBLFC") in the principal aggregate amount of $791,000, the Company executed two patent security agreements granting the SBLFC a security interest in ABC's patents to secure $541,000 of the $791,000 of SBLFC loans. All of the SBLFC loans, including those subject to patent security interests, were further secured by a security interest in the Company's accounts receivable, inventory and equipment. Each of these loans were for a term of five years from its respective loan date, bearing interest at the rate of 5.4% per annum and, as to each loan, after the first year, is amortized monthly as to principal and interest. In June 1998, the terms of these loans were modified to 9.5% interest with principal due on demand. The aggregate amount of monthly interest payments is approximately $600 per month. The Company is not in compliance with certain terms of these loans which have an outstanding balance of $65,888 at March 31, 2005. In the event that the Company, for whatever reason, is unable to continue to meet its loan repayment obligations, the assets which are pledged will be subject to the rights of the SBLFC as a secured party. Further, until the SBLFC loans are repaid, it is unlikely that the Company or ABC will be able to obtain additional secured financing utilizing this collateral as security for new loans.

ITEM 3. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES. We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer (and Principal 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 Principal Financial Officer), of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective.

CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING. During the quarter ended March 31, 2005, there have been no changes in our internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, these controls.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None

Item 3. Defaults Upon Senior Securities

None

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

None

Item 5. Other Information

Item 6. Exhibits and Reports on Form 8-K

During the period commencing January 1, 2005, until the date of filing of this Report, the following reports were filed on Form 8-K by the Company:

Date of Report	Item Reported	Description of Item
March 2, 2005	Item 1.01 Entry into a Material Definitive Agreement	The Company reported it entered int Capital Stock Exchange Agreement to all of the issued and outstanding e of SPO Medical Equipment Ltd.
April 21, 2005	Item 1.01 Entry into a Material Definitive Agreement	Set forth under Item 2.01
	Item 2.01 Completion of Acquisition	The Company reported the completion acquisition transaction as describe amended and restated Capital Stock Agreement
	Item 2.03 Creation of a Direct Financial Obligation	Set forth under Item 3.02
	Item 3.02 Unregistered Sales Of Equity Securities	The Company reported it conducted a closing on a private placement of $

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	Item 5.01 Changes in Control Of Registrant	The Company reported a change of co as a result of the completion of an Transaction
	Item 5.02 Departure of Directors or Principal Officers; Election of Directors; Appointment of Prinicipal Officers	The Company reported the resignatio existing directors and the appointm directors
	Item 5.03 Amendments to Articles of Incorporation And Bylaws	The Company reported a name change the filing of an amended and restat of Incorporation and Bylaws
	Item 9.01 Financial Statements And Exhibits	The Company reported that financial of business acquired and pro forma Information will be filed with 60 d Report and exhibits identified in r attached

Exhibit No.	Description

31.1	Certification of Michael Braunold pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Michael Braunold pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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SIGNATURES

In accordance with requirements of the Securities Exchange Act, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SPO MEDICAL INC.

Dated: July 12, 2005

by: /s/ Michael Braunold

Michael Braunold
Chief Executive Officer and
Principal Financial Officer

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