SPO Global Inc
Form 10-Q
May 14, 2015

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 March 31, 2015 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 GLOBAL INC.

(Exact name of registrant specified in its charter)

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

3 Gavish Street, POB 2454, Kfar Saba, Israel

(Address of principal executive offices, including zip code)

972-9-966-2520

(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 [X] 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 [X] 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 [X]

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

As of May 14, 2015, SPO Global Inc. had outstanding 7,039,679 shares of common stock, par value $0.01 per share.

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PART I - FINANCIAL INFORMATION

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 ABILITY TO CONTINUE AS A GOING CONCERN; THE COMPANY'S BUSINESS PLANS; TIMING OF PLANNED PRODUCT ROLLOUTS; EXPECTATIONS AS TO PRODUCT PERFORMANCE; EXPECTATIONS AS TO MARKET ACCEPTANCE OF THE COMPANY'S PRODUCT LINES; 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, SUFFICIENCY OF CASH RESERVES, THE COMPANY'S ABILITY TO OBTAIN ADDITIONAL NEEDED FINANCING; GOING CONCERN QUALIFICATIONS; ORDER BACKLOG RESULTING IN REVENUES; MARKET ACCEPTANCE OF THE COMPANY’S PRODUCT LINES; THE COMPETITIVE ENVIRONMENT GENERALLY AND IN THE COMPANY'S SPECIFIC MARKET AREAS; CHANGES IN TECHNOLOGY; INFLATION; 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 GLOBAL INC.

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands (except share and per share data)

	March 31, 2015 (Unaudited)	December 31, 2014 (Audited)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$4	$2
Accounts receivable	160	139
Prepaid expenses and other accounts receivable	157	300
	321	441
LONG TERM ASSETS		
Severance pay fund	165	159
PROPERTY AND EQUIPMENT, NET	29	31
Total assets	$515	$631
LIABILITIES AND STOCKHOLDERS' DEFICIENCY		
Current Liabilities		
Short-term loans	$2,125	$2,185
Trade payables	61	67
Employees and Payroll accruals	868	848
Accrued expenses and other liabilities	547	512
	3,601	3,612
Long-Term Liabilities		
Accrued severance pay	269	258
	269	258
COMMITMENTS AND CONTINGENT LIABILITIES		
STOCKHOLDERS' DEFICIENCY		
Preferred stock $0.01 par value		
Authorized - 2,000,000 shares, issued and outstanding - 100 Series A shares at March 31, 2015 and December 31, 2014, respectively	–(*)	–(*)
Common stock $0.01 par value-		

Authorized - 100,000,000 shares, issued and outstanding - 7,039,679 and 6,418,368 shares as at March 31, 2015 and December 31, 2014, respectively	70	64
Additional paid-in capital	18,971	18,974
Accumulated deficit	(22,396)	(22,277)
	(3,355)	(3,239)
Total liabilities and stockholders' deficiency	$515	$631

(*) Less than $1

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

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SPO GLOBAL INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

U.S. dollars in thousands (except share and per share data)

	3 Months ended March 31,	
	2015 (Unaudited)	2014 (Unaudited)
Revenues	$405	$28
Cost of revenues	294	2
Gross profit	111	26
Operating expenses		
Research and development	5	6
Selling and marketing	17	16
General and administrative	139	121
Total operating expenses	161	143
Operating loss	(50)	(117)
Financial expense, net	(69)	(56)
Net loss for the period	$(119)	$(173)
Basic and diluted loss per share	$(0.02)	$(0.03)
Weighted average number of shares outstanding used in computation of basic loss per share	6,788,970	5,517,252

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

SPO GLOBAL INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands (except share and per share data)

	3 Months ended March 31, 2015 (Unaudited)	3 Months ended March 31, 2014 (Unaudited)
Cash Flows from Operating Activities		
Net Loss for the period	$(119)	$ (173)
Adjustments to reconcile loss to net cash provided by (used in) operating activities:		
Depreciation	2	1
Non-cash expenses related to convertible debt	15	14
Non-cash expense related to warrants to issue shares	—	4
Changes in assets and liabilities:		
Increase in accrued interest payable on loans	34	30
(Increase) in accounts receivable	(21)	—
Decrease in prepaid expenses and other receivables	143	1
(Decrease) in trade payables	(6)	(14)
Increase in accrued severance pay, net	5	4
Increase in accrued expenses and other liabilities	55	33
Net cash provided by (used in) operating activities	108	(100)
Cash Flows from Financing Activities		
Payments of loans	(106)	—
Net cash used in financing activities	(106)	—
Increase (decrease) in cash and cash equivalents	2	(100)
Cash and cash equivalents at the beginning of the period	2	286
Cash and cash equivalents at the end of the period	$4	$ 186
Non cash transactions		
Conversion of convertible debt to shares	$3	$ 5
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for:		
Interest	$31	$ 27

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

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SPO GLOBAL INC.

NOTES TO THE FINANCIAL STATEMENTS

U.S. dollars in thousands (except share data)

NOTE 1 GENERAL

SPO Global Inc. (hereinafter referred to as "SPO" 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. The applications are marketed in the following sectors; professional medical care, homecare, sports, safety and search & rescue.

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". In January 2010, the Company restructured its operations to focus primarily on licensing its core technology for non-medical market applications. Following the restructure, the Company ceased its previous operations associated with the distribution of the PulseOx line in the medical field. In February 2011, the Company transferred research and development activities to subcontractors, thereby ceasing all internal research and development activities.

Effective October 4, 2013, the Company changed its corporate name to “SPO Global Inc”.

The Company implemented a 1-for-20 reverse stock split on October 7, 2013. All share and per share amounts and calculations in these financial statements have been retroactively adjusted to reflect the effects of the reverse stock split.

NOTE 2 GOING CONCERN

As reflected in the accompanying financial statements, the Company’s operations for the period ended March 31, 2015, resulted in a net loss of $119, and the Company’s balance sheet reflects a net stockholders’ deficit of $3,355. The Company’s ability to continue operating as a “going concern” is dependent on its ability to raise sufficient additional working capital. These matters raise substantial doubt about the Company’s ability to continue as a going concern. The financial statements have been prepared on a going concern basis, which contemplates realization of assets and liquidation of liabilities in the ordinary course of business. As disclosed in previous filings with the Securities and Exchange Commission, management has been attempting to raise additional cash from current and potential stockholders and plans to continue these efforts. There can be no assurance that this capital will be available and if it is not, the Company may be forced to substantially curtail or cease operations. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES

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 March 31, 2015 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 months ended March 31, 2015, are not necessarily indicative of the results that may be expected for the year ended December 31, 2015.

NOTE 4 PROPERTY AND EQUIPMENT, NET

	March 31, 2015	December 31, 2014
Cost:		
Office furniture, equipment, and molds	$ 14	$ 21
Automobile	$ 23	$ 23
Less accumulated depreciation:	$ 8	$ 13
Property and Equipment, net	$ 29	$ 31

Depreciation expense for the period ended March 31, 2015 amounted to $2. The Company disposed of fully depreciated office furniture and equipment in the amount of approximately $7.

NOTE 5 CAPITAL TRANSACTIONS

During the period ended March 31, 2015, the Company issued 621,311 shares of its common stock upon conversion of $3 in principal of convertible promissory notes.

NOTE 6 FINANCIAL EXPENSE

Financial expense is comprised of the following:

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
Non-cash expenses related to convertible debt	$ (15)	$ (14)
Non-cash expenses related to warrants to issue shares	—	(4)
Interest in respect of debt instruments and liabilities	(65)	(57)
Exchange rate differences caused by fluctuations in the exchange rate with the New Israeli Shekel ("NIS") on liabilities denominated in NIS held by the subsidiary	11	19
	$ (69)	$ (56)

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, 2014.

OVERVIEW

SPO Global 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 enhance wireless, stand-alone configurations facilitating expanded commercial possibilities. As of May 2015, we held 12 patents issued by the United States Patent and Trademark Office ("USPTO") covering various aspects of our technologies. Our technologies are currently applied to products that are designed for use in the homecare, professional medical care, sports, safety and search and rescue markets.

We are primarily engaged in developing, manufacturing and licensing our technology to third parties for integration with products in the general wellness, recreational, baby monitoring and sports monitoring fields. We pursue joint ventures, OEM type arrangements, research and or subcontracting agreements relating to our oximetry technology with respect to the general wellness, recreational, baby monitoring and sports monitoring fields. Since August 2012, we have partnered with HoMedics LLC, a distributor and manufacturer of leading brands in an array of consumer health, wellness and electronic lifestyle categories throughout the Americas, Europe, the Asia-Pacific region, Africa and the Middle-East, for the distribution of a private labeled, over the counter pulse oximeter for non-medial consumer wellness applications.

We are currently focused on exploiting the sports and wellness markets by developing cutting edge products based on our proprietary technology.

The SPO sports watch has been designed to measure continuous heart-rate wirelessly, without the need to wear a conventional chest strap. This is a major and unique practical advantage over current products that we believe exist in the general leisure and wellness market. As importantly, the sports watch will be able to read the heart rate without the sports enthusiast ceasing his physical activity. This will be made possible through the use of SPO's patented reflectance technology. Subject to raising significant additional funds and securing a partnership with an existing market player, of which no assurance can be provided, we anticipate that the product should become commercially available through an OEM arrangement with a strategic market partner during 2016.

In addition to the sports watch, we launched an innovative wellness watch that measures the number of activities and calories burned by an individual performs on a given day. The watch, designed for both children and adults, features a display function to continuously measure the number of daily activities against preset recommended goals. SPO has designed and patented the functionality of the watch to be an affordable, simple-to-use, fashion accessory to encourage users to increase their mobility and overall wellness and to wear it with pride.

In addition, we are developing an innovative home-baby monitoring device for continuous measurement of wellness information to the parent or caregiver, while the baby is sleeping. This parental reassurance tool gives the company a technological competitive edge in providing an innovative, high performance solution for a market application that is applicable to most family homes. Additionally, we are looking to expand the baby product offering by introducing a forehead thermometer incorporating our RPO technology which will enable monitoring vital sign information of babies and infants. Subject to raising significant funds and securing a partnership with an existing market player, of which no assurance can be provided, we believe that the products should become commercially available through an OEM arrangement with a strategic market partner during 2016.

Current Operational Highlights

Since August 2012, we have partnered with HoMedics LLC, a distributor and manufacturer of leading brands in an array of consumer health, wellness and electronic lifestyle categories throughout the Americas, Europe, the Asia-Pacific region, Africa and the Middle-East, for the distribution of a private labeled, over the counter pulse oximeter for non-medial consumer wellness applications.

We recorded revenues of $405,000 during the three months ended March 31, 2015 and $461,000 for the year ended December 2014. As of March 31, 2015, we had a backlog of approximately $409,000, consisting of orders for additional units of our wellness product that we expect to deliver during the remainder of 2015.

Revenues to date have resulted primarily from shipments of a new consumer wellness product to mass-market retailers based in the United States. We have generated significant operating losses since inception and we have a limited operating history upon which an evaluation of our prospects can be made. Our prospects must therefore be evaluated in light of the problems, expenses, delays and complications associated with a development stage company.

However, we need to raise additional funds on an immediate basis in order to realize our business plan as well as pay outstanding loans due as of May 14, 2015 in the approximate amount of $1,265,000. In January 2010, we restructured our operations in an attempt to focus primarily on our core technology for non-medical market operations. As of May 14, 2015, we had two employees working on a full-time basis. In addition, all research and development activities are performed on a sub-contracted basis. If we are unable to raise capital on an immediate basis, it may be necessary for us to take further cost cutting measures to reduce our cash burn including laying-off additional personnel and/or cease operations entirely. 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 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 product manufacturing. Revenues generated from product manufacturing are recognized when such products are shipped.

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 THREE ENDED MARCH 31, 2015 AND THE THREE MONTHS ENDED MARCH 31, 2014.

REVENUES. Revenues for the three months ended March 31, 2015 were $405,000 as compared to $28,000 for the corresponding period in 2014. The increase in revenues for the three months ended March 31, 2015 as compared to the corresponding three months in 2014 is attributable to an increase in deliverable purchase orders.

COSTS OF REVENUES. Costs of revenues include all costs related to subcontracted manufacturing and product delivery. Cost of Revenues for the three months ended March 31, 2015 were $294,000 as compared to $2,000 for the corresponding period in 2014. The increase in cost of revenues for the three months ended March 31, 2015 as compared to the corresponding period in 2014 is attributable to the manufacturing costs associated with product sales in the relevant periods.

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 subcontractor services, contract design and testing services, supplies used and consulting fees paid to third parties. Research and development expenses were $5,000 for the three months ended March 31, 2015 as compared to $6,000 for the corresponding period in 2014. The decrease in research and development expenses for the three months ended March 31, 2015 as compared to the corresponding period in 2014 is primarily attributable to a decrease in subcontract services.

SELLING AND MARKETING EXPENSES. Selling and marketing expenses consist primarily of costs relating to compensation attributable to consultants for the provision of public relations, promotion and marketing services geared to the recreational sports and wellness markets. Selling and marketing expenses for the three months ended March 31, 2015 were $17,000 as compared to $16,000 for the corresponding period in 2014. The increase in selling and marketing expenses during the three months ended March 31, 2015 as compared to the corresponding period in 2014 is primarily attributable to additional marketing activities in preparation for the introduction of new consumer products.

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 three months ended March 31, 2015 were $139,000 as compared to $121,000 for the corresponding period in 2014. The increase in general and administrative expenses during the three months ended March 31, 2015 as compared to the corresponding period in 2014 is primarily attributable to adjustments to accrued liabilities.

FINANCIAL EXPENSE, NET. Finance expense, net for the three months ended March 31, 2015 were $69,000 as compared to $56,000 for the corresponding period in 2014. The increase in finance expenses during the three months ended March 31, 2015 as compared to the corresponding periods in 2014 is primarily attributable an increase in interest on debt instruments and liabilities in the amount of $8,000.

NET LOSS. Net loss for the three months ended March 31 2015 was $119,000 as compared to $173,000 for the corresponding periods in 2014. The decrease in net loss during the three months ended March 31, 2015 as compared to the corresponding period in 2014 is primarily attributable to an increase in gross profits.

LIQUIDITY AND CAPITAL RESOURCES

We need to raise additional funds in order to meet our on-going operating requirements, pay outstanding loans due as of May 14, 2015 in the aggregate approximate amount of $1,265,000 and to realize our restructured business plan. We believe that our currently existing cash resources, including anticipated revenue stream, are sufficient to satisfy our operating requirements through September 30, 2015, provided that we are able to realize sales from backlog of approximately $409,000 and defer the outstanding loans. If we are unable to raise additional capital through a financial raise or revenues, it may be necessary for us to take further measures to reduce our cash burn including laying-off additional personnel, or ceasing operations entirely**.** 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. Such “going concern” qualification may make it more difficult for us to raise funds if and when needed. In addition, any 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.

As of March 31, 2015, we had $4,044 in cash and cash equivalents available to us.

We generated cash flow from operating activities of approximately $108,000 during the three months ended March 31, 2015 compared to negative cash flow of $100,000 for the 2014 corresponding period primarily due to a decrease in prepaid cost of sales of approximately $142,000.

To date, we have financed our operations primarily from debt financing and the sale of our securities. See Notes 5 and 9 in our consolidated financial statements accompanying our Annual Report on Form 10-K for the year ended December 31, 2014 filed on April 14, 2015 and Note 5 in our consolidated financial statements accompanying this Quarterly Report on Form 10-Q**.**

ITEM 4. 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, 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, who serves as our principal executive officer and principal financial and accounting officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing, our Chief Executive Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report to provide reasonable assurance that material information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms.

Management is aware that there is a lack of segregation of duties due to the small number of employees dealing with general administrative and financial matters. However, at this time, management has decided that considering the employees involved, the control procedures in place, and the outsourcing of certain financial functions, the risks associated with such lack of segregation are low and the potential benefits of adding additional employees to clearly segregate duties do not justify the expenses associated with such increases. Management will periodically reevaluate this situation. If the volume of the business increases and sufficient capital is secured, it is our intention to increase staffing to mitigate the current lack of segregation of duties within the general administrative and financial functions.

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems no evaluation of controls can provide absolute assurance that all control issues, if any, within a company have been detected. Such limitations include the fact that human judgment in decision-making can be faulty and that breakdowns in internal control can occur because of human failures, such as simple errors or mistakes or intentional circumvention of the established process.

CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING. During the quarter ended March 31, 2015, there were 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 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 May 14, 2015, principal and accrued interest in the aggregate amount of approximately $1,265,000 is due and outstanding. 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	Rule 13a - 14(a) Certification of Principal Executive Officer (and Principal Financial and Accounting Officer)
32	Section 1350 Certification of Principal Executive Officer (and Principal Financial and Accounting Officer)
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

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: May 14, 2015 /s/ Michael Braunold
Michael Braunold
Chief Executive Officer (Principal Executive
Officer and Principal Financial and Accounting Officer)

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