

Edgar Filing: ClearBridge Energy MLP Fund Inc. - Form SC 13G/A

ClearBridge Energy MLP Fund Inc.
Form SC 13G/A
February 17, 2015

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

SCHEDULE 13G

Under the Securities Exchange Act of 1934

(Amendment No.3) *

CLEARBRIDGE ENERGY MLP FUND INC.

(Name of Issuer)

Common Stock

(Title of Class of Securities)

184692101

(CUSIP Number)

December 31, 2014

(Date Of Event which Requires Filing of this Statement)

Check the appropriate box to designate the rule pursuant to which this Schedule is filed:

☒ Rule 13d-1(b)

☐ Rule 13d-1(c)

☐ Rule 13d-1(d)

* The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter the disclosures provided in a prior cover page.

The information required in the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

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SEC 1745 (3-06)

CUSIP No.184692101

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1. NAME OF REPORTING PERSON:

I.R.S. IDENTIFICATION NO. OF ABOVE PERSON:

Morgan Stanley

I.R.S. #36-3145972

2. CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP:

(a) ☐

(b) ☐

3. SEC USE ONLY:

4. CITIZENSHIP OR PLACE OF ORGANIZATION:

The state of organization is Delaware.

NUMBER OF
SHARES
BENEFICIALLY
OWNED BY
EACH
REPORTING
PERSON
WITH:

5. SOLE VOTING POWER:

4,461,233

6. SHARED VOTING POWER:

2,102,784

7. SOLE DISPOSITIVE POWER:

0

8. SHARED DISPOSITIVE POWER:

4,949,278

9. AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON:

7,052,061

10. CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES:

☐

11. PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9):

10.2%

12. TYPE OF REPORTING PERSON:

HC, CO

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1. NAME OF REPORTING PERSON:

I.R.S. IDENTIFICATION NO. OF ABOVE PERSON:

Morgan Stanley Smith Barney LLC

I.R.S. #26-4310844

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2. CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP:

(a) ☐

(b) ☐

3. SEC USE ONLY:

4. CITIZENSHIP OR PLACE OF ORGANIZATION:

The state of organization is Delaware.

NUMBER OF
SHARES
BENEFICIALLY
OWNED BY
EACH
REPORTING
PERSON
WITH:

5. SOLE VOTING POWER:
4,458,366

6. SHARED VOTING POWER:
2,102,784

7. SOLE DISPOSITIVE POWER:
0

8. SHARED DISPOSITIVE POWER:
4,946,411

9. AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON:
7,049,194

10. CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES:

☐

11. PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9):
10.2%

12. TYPE OF REPORTING PERSON:
BD

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Item 1. (a) Name of Issuer:

CLEARBRIDGE ENERGY MLP FUND INC.

(b) Address of Issuer's Principal Executive Offices:

620 EIGHTH AVENUE
49TH FLOOR
NEW YORK NY 10018

Item 2. (a) Name of Person Filing:

(1) Morgan Stanley
(2) Morgan Stanley Smith Barney LLC

(b) Address of Principal Business Office, or if None, Residence:

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(1) 1585 Broadway
New York, NY 10036
(2) 1585 Broadway
New York, NY 10036

(c) Citizenship:

(1) The state of organization is Delaware.
(2) The state of organization is Delaware.

(d) Title of Class of Securities:

Common Stock

(e) CUSIP Number:

184692101

Item 3. If this statement is filed pursuant to Sections 240.13d-1(b) or 240.13d-2(b) or (c), check whether the person filing is a:

- (a) ☒ Broker or dealer registered under Section 15 of the Act (15 U.S.C. 78o).
Morgan Stanley & Co. Incorporated
- (b) ☐ Bank as defined in Section 3(a)(6) of the Act (15 U.S.C. 78c).
- (c) ☐ Insurance company as defined in Section 3(a)(19) of the Act (15 U.S.C. 78c).
- (d) ☐ Investment company registered under Section 8 of the Investment Company Act of 1940 (15 U.S.C. 80a-8).
- (e) ☐ An investment adviser in accordance with Section 240.13d-1(b)(1)(ii)(E);
- (f) ☐ An employee benefit plan or endowment fund in accordance with Section 240.13d-1(b)(1)(ii)(F);
- (g) ☒ A parent holding company or control person in accordance with Section 240.13d-1(b)(1)(ii)(G);
Morgan Stanley
- (h) ☐ A savings association as defined in Section 3(b) of the Federal Deposit Insurance Act (12 U.S.C. 1813);
- (i) ☐ A church plan that is excluded from the definition of an investment company under Section 3(c)(14) of the Investment Company Act of 1940 (15 U.S.C. 80a-3);
- (j) ☐ Group, in accordance with Section 240.13d-1(b)(1)(ii)(J).

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Item 4. Ownership as of December 31, 2014.*

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(a) Amount beneficially owned:

See the response(s) to Item 9 on the attached cover page(s).

(b) Percent of Class:

See the response(s) to Item 11 on the attached cover page(s).

(c) Number of shares as to which such person has:

(i) Sole power to vote or to direct the vote:

See the response(s) to Item 5 on the attached cover page(s).

(ii) Shared power to vote or to direct the vote:

See the response(s) to Item 6 on the attached cover page(s).

(iii) Sole power to dispose or to direct the disposition of:

See the response(s) to Item 7 on the attached cover page(s).

(iv) Shared power to dispose or to direct the disposition of:

See the response(s) to Item 8 on the attached cover page(s).

Item 5. Ownership of Five Percent or Less of a Class.

Not Applicable

Item 6. Ownership of More Than Five Percent on Behalf of Another Person.

Not Applicable

Item 7. Identification and Classification of the Subsidiary which Acquired the Security Being Reported on By the Parent Holding Company.

See Exhibit 99.2

Item 8. Identification and Classification of Members of the Group.

Not Applicable

Item 9. Notice of Dissolution of Group.

Not Applicable

Item 10. Certification.

By signing below I certify that, to the best of my knowledge and belief, the securities referred to above were acquired and are held in the ordinary course of business and were not acquired and are not held for the purpose of or with the effect of changing or influencing the control of the issuer of the securities and were not acquired and are not held in connection with or as a participant in any transaction having that purpose or effect.

* In Accordance with the Securities and Exchange Commission Release No. 34-39538 (January 12, 1998) (the "Release"), this filing reflects the securities beneficially owned, or that may be deemed to be beneficially owned, by certain operating units (collectively, the "MS Reporting Units") of Morgan Stanley and its subsidiaries and affiliates (collectively, "MS"). This filing does not reflect securities, if any, beneficially owned by any operating units of MS whose ownership of securities is disaggregated from that of the MS Reporting Units in accordance with the Release.

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Signature.

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Date: February 17, 2015

Signature: /s/ Cesar Coy

Name/Title: Cesar Coy/Authorized Signatory, MORGAN STANLEY

MORGAN STANLEY

Date: February 17, 2015

Signature: /s/ Tim Cole

Name/Title: Tim Cole/Authorized Signatory, MORGAN STANLEY SMITH BARNEY LLC

MORGAN STANLEY SMITH BARNEY LLC

EXHIBIT NO. -----	EXHIBITS -----	PAGE ----
99.1	Joint Filing Agreement	7
99.2	Item 7 Information	8

* Attention. Intentional misstatements or omissions of fact constitute federal criminal violations (see 18 U.S.C. 1001).

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EXHIBIT NO. 99.1 TO SCHEDULE 13G
JOINT FILING AGREEMENT

February 17, 2015

MORGAN STANLEY and MORGAN STANLEY SMITH BARNEY LLC,

hereby agree that, unless differentiated, this

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Schedule 13G is filed on behalf of each of the parties.

MORGAN STANLEY

BY: /s/ Cesar Coy

Cesar Coy/Authorized Signatory, MORGAN STANLEY

MORGAN STANLEY SMITH BARNEY LLC

BY: /s/ Tim Cole

Tim Cole/Authorized Signatory, MORGAN STANLEY SMITH BARNEY LLC

* Attention. Intentional misstatements or omissions of fact constitute federal criminal violations (see 18 U.S.C. 1001).

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EXHIBIT NO. 99.2

ITEM 7 INFORMATION

The securities being reported on by Morgan Stanley as a parent holding company are owned, or may be deemed to be beneficially owned, by Morgan Stanley Smith Barney LLC, a broker dealer registered under Section 15 of the Securities Exchange Act of 1934, as amended.

ING-BOTTOM: 4px"> \$0.06 \$0.02

Weighted average number of shares outstanding used in computation of basic and diluted loss per share
33,947,996 26,215,454

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

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SPO MEDICAL INC.
 STATEMENTS OF CHANGES IN STOCKHOLDERS' DEFICIENCY
 U.S. dollars in thousands (except share data)

	Stock capital	Additional paid-in capital	Accumulated deficit	Total
Balance as of January 1, 2009	\$ 248	\$ 14,241	\$ (15,854)	\$(1,365)
Amortization of deferred stock-based compensation related to options granted to employees		41		41
Issuance of ordinary stock upon conversion of unpaid accrued interest	*_	6		6
Issuance of ordinary stock to service providers	4	28		32
Benefit on issuance of warrants in consideration of unpaid directors fees		8		8
Benefit on issuance of warrants in connection with extension of loans and accrued interest		8		8
Amortization of deferred stock-based compensation related to options granted to employees in restructuring		71		71
Net Loss			(477)	(477)
Balance as of December 31, 2009	\$ 252	\$ 14,403	\$ (16,331)	\$(1,676)
Issuance of ordinary stock to service providers	6	91		97
Benefit on issued warrants to service providers		720		720
Issuance of ordinary stock upon settlement of unpaid principal and accrued interest	22	300		322
Amortization of deferred stock-based compensation related to options granted to employees in restructuring		2		2
Capital raise, net	41	285		326
Amortization of deferred stock-based compensation related to warrants granted to employees in consideration of unpaid salaries and employment benefits		89		89
Exercise of Penny warrants	4			4
Issuance of warrants in connection with extension of loans and accrued interest		172		172
Net Loss			(2,174)	(2,174)
Balance as of December 31, 2010	\$ 325	\$ 16,062	\$ (18,505)	\$(2,118)

* Less than \$1

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

MEDICAL INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
U.S. dollars in thousands (except share data)

	Year ended December 31,	
	2010	2009
Cash Flows from Operating Activities		
Net Loss for the period	\$(2,174)	\$(477)
Income recorded due to agreement with a licensee	-	(224)
Adjustments to reconcile loss to net cash used in operating activities:		
Depreciation	36	48
Stock-based compensation expenses related to employees, service providers and loaners	986	160
Grant of ordinary stock to service providers	95	-
Non-cash expenses related to warrants to issue shares	15	-
Income resulted from a settlement with lenders	(64)	-
Increase in accrued interest payable on loans	54	112
Changes in assets and liabilities:		
Decrease in trade receivables	15	209
Decrease (Increase) in prepaid expenses and other receivables	17	(7)
Decrease in inventories	-	538
Increase (decrease) in accounts payable	13	(266)
Increase in accrued severance pay, net	3	16
Increase in accrued expenses and other liabilities	11	23
Net cash resulted from (used in) operating activities	(993)	132
Cash Flows from Investing Activities		
Cash from sale of licensee	100	100
Purchase of property and equipment	(6)	-
Net cash results from investing activities	94	100
Cash Flows from Financing Activities		
Overdraft	8	-
Issuance of stock capital, net	430	-
Proceeds from issuance of warrants to issue shares	203	-
Proceeds from loan	30	-
Repayments of short-term loans	(158)	(109)
Net cash provided by (used in) financing activities	513	(109)
Increase (decrease) in cash and cash equivalents	(386)	123
Cash and cash equivalents at the beginning of the year	386	263
Cash and cash equivalents at the end of the year	\$-	\$386
Non cash transactions		
Conversion of loan notes into stock capital	\$221	\$-

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

SPO MEDICAL INC.
NOTES TO THE FINANCIAL STATEMENTS
U.S. dollars in thousands (except share data)

NOTE 1

GENERAL

SPO Medical 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." (UNDI) 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. The restructuring included entering into a licensing agreement (the "License") for the Company's then existing medical PulseOx product line with an entity owned by the Company's Chief Technology Officer (hereinafter the "Licensee"). Under the terms of the License, the Licensee was granted a non-transferable, royalty bearing license, to distribute the PulseOx product line and derivatives thereof, for specifically defined medical uses. Following the License, the Company ceased its previous operations associated with the distribution of the PulseOx line in the medical field. See Note 4 below.

NOTE 2

GOING CONCERN

As reflected in the accompanying financial statements, the Company's operations for the year ended December 31, 2010, resulted in a net loss of \$2,174 and the Company's balance sheet reflects a net stockholders' deficit of \$2,118. The Company's ability to continue operating as a "going concern" is dependent on its ability to raise sufficient additional working capital. 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.

SPO MEDICAL INC.
NOTES TO THE FINANCIAL STATEMENTS
U.S. dollars in thousands (except share data)

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") in the United States of America.

A. Principles of Consolidation:

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, SPO Ltd. All material inter-company accounts and transactions have been eliminated in consolidation.

B. 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.

C. Financial statements in U.S. dollars:

The reporting currency of the Company is the U.S. dollar ("dollar"). The dollar is the functional currency of the Company. Transactions and balances originally denominated in dollars are presented at their original amounts. Non-dollar transactions and balances are remeasured into dollars in accordance with the principles set forth in Accounting Standards Codification (ASC) 830-10, "Foreign Currency Translation". All exchange gains and losses from remeasurement of monetary balance sheet items resulting from transactions in non-dollar currencies are recorded in the statement of operations as they arise.

D. Cash and Cash Equivalents:

The Company considers all highly liquid investments originally purchased with maturities of three months or less to be cash equivalents.

E. Property and Equipment:

Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, as follows:

Computer and peripheral equipment	3 - 7 years
Office furniture and equipment	7 - 15 years
Leasehold improvement	Over the term of the lease

In accordance with ASC 360-10, "Accounting for Impairment or Disposal of Long-Lived Assets", management reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable based on estimated future undiscounted cash flows. If so indicated, an impairment loss would be recognized for the difference between the carrying amount of the asset and its fair value. As of December 31, 2010, no impairment losses have been recorded.

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SPO MEDICAL INC.
NOTES TO THE FINANCIAL STATEMENTS
U.S. dollars in thousands (except share data)

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES (Cont.)

F. Revenue recognition:

The company generates revenues principally from the provision of research and development services. Revenues generated from research and development services are recognized when such services are performed.

G. Research and development costs:

Research and development costs, net of government grants and participation by others, are charged to expenses as incurred.

H. Income taxes:

The Company accounts for income taxes in accordance with ASC 740-10, "Accounting for Income Taxes" This statement prescribes the use of the liability method whereby deferred tax assets and liability account balances are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company provides a valuation allowance, if necessary, to reduce deferred tax assets to their estimated realizable value.

I. Fair value of financial instruments:

The financial instruments of the Company consist mainly of cash and cash equivalents, accounts payable and short-term loans. In view of their nature, the fair value of the Company's financial instruments is usually identical or close to their carrying value.

J. Stock-based compensation:

Effective January 1, 2006, the Company adopted ASC 718-10, "Share-Based Payment" requiring that compensation cost relating to share-based payment awards made to employees and directors be recognized in the financial statements. The awards issued under Company's stock-based compensation plans are described in Note 11, "Stockholder's Equity". The cost for such awards is measured at the grant date based on the calculated fair value of the award. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods (generally the vesting period of the equity award) in the Company's Consolidated Statement of Operations. The following table summarizes the effects of stock-based compensation resulting from the application of ASC 718-10 included in Statement of Operations:

	Year ended December 31,	
	2010	2009
Research and development, net	\$ 89	\$ -
Selling and marketing	-	13
General and administrative	-	36
Restructuring expenses	2	71
	\$ 91	\$ 120

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SPO MEDICAL INC.
NOTES TO THE FINANCIAL STATEMENTS
U.S. dollars in thousands (except share data)

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES (Cont.)

J. Stock-based compensation (cont.)

Share-based compensation cost relating to stock options recognized in 2010 and 2009 is based on the value of the portion of the award that is ultimately expected to vest. ASC 718-10 requires forfeitures to be estimated at the time of grant in order to estimate the portion of the award that will ultimately vest. Such portion is currently estimated at 0%, based on the Company's historical rates of forfeiture.

Under ASC 718-10, the fair market value of option grants was estimated on the date of grant using the "Black-Scholes option pricing" method with the following weighted-average assumptions: (1) expected life of 3 or 5 years (as per option's terms); (2) dividend yield of 0% (3) expected volatility of 273% (4) risk-free interest rate of approximately 0.5% in 2009 and 0.4% in 2010

K. Basic and diluted net loss per share:

Basic and diluted net loss per share is presented in accordance with ASC 260-10, "Earnings Per Share" for all periods presented. Basic and diluted net loss per share of Common Stock was determined by dividing net loss attributable to Common stock holders by weighted average number of shares of Common Stock outstanding during the period. Diluted net loss per share of Common Stock is the same as basic net loss per share of Common Stock for all periods presented as the effect of the Company's potential additional shares of Common Stock were anti-dilutive.

All outstanding stock options and warrants have been excluded from the calculation of the diluted net loss per share of Common Stock because all such securities are anti-dilutive since the Company reported losses for those years. The total number of shares related to the outstanding options and warrants excluded from the calculations of diluted net loss per share was 5,899,834 and 4,298,511 for the years ended December 31, 2010 and 2009, respectively.

NOTE 4 DISCONTINUED OPERATIONS

Following the entry into the License, the Company ceased its previous operations associated with the distribution of its then existing PulseOx product line in the medical field. Consequently operating results of this segment have been reported in these financial statements as discontinued operations in accordance with statement of financial accounting standards "Accounting for the Impairment or Disposal of Long Lived Assets" ASC 205-20, and the company has reclassified its results of operations for the prior period in accordance with provisions of ASC 205-20.

The following reflects adjustments of the Company's results of operation as presented in 2009

Revenues	\$ 1,047
Cost of revenues	632
Gross Profit	415
Operating expenses:	
Selling and marketing	132
General and administrative	9
Total operating expenses	141

Other Income – agreement with a licensee	224
Net loss from discontinued operations	498

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SPO MEDICAL INC.
NOTES TO THE FINANCIAL STATEMENTS
U.S. dollars in thousands (except share data)

NOTE 5

PROPERTY AND EQUIPMENT

	December 31,	
	2010	2009
Cost:		
Computer and peripheral equipment	\$ 210	\$ 267
Leasehold Improvement	31	31
Office furniture and equipment	26	29
	\$ 267	\$ 327
Accumulated depreciation:		
Computer and peripheral equipment	\$ 123	\$ 156
Leasehold Improvement	21	17
Office furniture and equipment	12	13
	\$ 156	\$ 186
Property and Equipment, net	\$ 111	\$ 141

Depreciation expenses for the years ended December 31, 2010 and 2009 amounted to \$36 and \$48 respectively.

Following the entry into the License agreement with a Licensee, as described in Note 4 the Company transferred in January 2010 all property and equipment directly relating to the production of the SPO medical products to the Licensee (cost 66 and accumulated depreciation 66, net zero).

NOTE 6

SHORT-TERM LOANS

A. In December 2005 the Company completed the private placement to certain accredited investors that commenced in April 2005 for the issuance of up to \$1,544 of units of its securities, with each unit comprised of (i) the Company's 18 month 6% promissory note (collectively, the "April 2005 Notes") and (ii) three year warrants to purchase up to such number of shares of the Company's 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"). The Company and the holders of \$1,464 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 thereof 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 that have 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; a holder of an April 2005 Notes in the principal amount of \$50 was repaid. The Amendment also provided that if the Company subsequently issue shares of its 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.

SPO MEDICAL INC.
NOTES TO THE FINANCIAL STATEMENTS
U.S. dollars in thousands (except share data)

NOTE 6

SHORT-TERM LOANS (Cont.)

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, 2009, the holders of approximately \$439 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 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 share of our Common stock have been issued to these April 2005 Note holders, exercisable over three years from the date of issuance. We have been informed by the holders of \$300 in principal amount of their election to not accept our offer, of which \$250 of principal and the accrued interest thereon has been repaid as of December 31, 2009. On March 15, 2010, we agreed with the holder of an April 2005 Note in the principal amount of \$50 to extend the note's maturity date to September 15, 2010 and, in consideration thereof, we agreed to pay the holder total amount of \$45, which was paid in full.

On February 5, 2009, the Company agreed with one of the note holders to repay \$25 over a number of payments during the current financial year and to convert accrued interest to 26,500 shares of Common Stock.

On December 31, 2009 the Company and a holder of an April 2005 Notes in the principal amount of \$30 agreed to extend the note's maturity date to December 31, 2011 in consideration of the issuance of warrants to purchase up to 50,000 shares of the of the Company's Common Stock, at a per share exercise price of \$0.01 exercisable for a period of three years.

On May 31, 2010, the Company issued to two note holders of the principal amount of \$200 warrants to purchase up to 600,000 shares of the Company's Common Stock in consideration of such investors' extension to December 31, 2011 of the maturity date of April 2005 Notes held by them and the cancellation of previously issued warrants to purchase up to an aggregate of 333,333 shares of the Company's Common Stock. The warrants are exercisable through December 31, 2013 at a per share exercise price of \$0.15.

On July 27, 2010, the Company issued to two holders of the April 2005 Notes a total of 1,370,000 restricted shares of our Common Stock in satisfaction of a note held by one of the accredited investors in the approximate amount of \$202 and warrants, exercisable through November 15, 2010 to purchase up to 700,000 shares of the Company's Common Stock, at a per share exercise price of \$0.15; on November 15, 2010, warrants for 666,667 shares were exercised for cash proceeds of \$100.

As of December 31, 2010, the outstanding April 2005 Notes principal and accrued interest in the aggregate amount of \$585.

SPO MEDICAL INC.
NOTES TO THE FINANCIAL STATEMENTS
U.S. dollars in thousands (except share data)

NOTE 6 SHORT-TERM LOANS (Cont.)

B. In July 2006, the Company commenced a private placement of units of its securities, the "Loan Notes", with each unit comprised of (i) the Company's 8% month promissory note due 12 months from the date of issuance and (ii) warrants as described below, pursuant to which the Company raised \$550 (the maximum amount that could be raised from this offering). Under the terms of the offering, the principal and accrued interest was 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 of principal loaned, at a per share exercise price equal to the lower of \$1.50 or 35% less than any offering price at an initial public offering of the Company's Common Stock during the warrant exercise period. During 2007, the Company 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. The holders of \$238 of the principal amount agreed to convert the principal and accrued interest thereon into shares of the Company's Common Stock. In 2007, the Company repaid to one note holder the principal amount of \$75 and the accrued interest thereon. On December 31, 2009 the Company and a holder of a Loan Notes in the principal amount of \$150 agreed to extend the note's maturity date to December 31, 2011 in consideration of the issuance of warrants to purchase up to 50,000 shares of the Company's Common Stock, at a per share exercise price of \$0.01 exercisable for a period of three years. On June 30, 2010, the company issued 105,074 restricted shares of our Common Stock to a note holder in satisfaction of \$16 owed to such holder and the cancellation of previously issued warrants to purchase up to 7,800 shares of the Company's Common Stock.

As of December 31, 2010, approximately \$161 in respect of the principal and accrued interest on these notes remains outstanding.

C. On December 29, 2010, the Company and its Chief Executive Officer entered into a loan agreement pursuant to which the Chief Executive Officer loaned to the Company \$30 for working capital purposes. The original maturity date of the loan was January 29, 2011. The loan bears interest at a per annum rate of 8%. In January 2011, the maturity date of the loan was extended to April 30, 2011.

NOTE 7 EMPLOYEES AND PAYROLL ACCRUALS

The Company recorded liability to its employees in respect of unpaid salaries and employment benefits, which also includes accruals for salaries and benefits thereon that have been deferred since July 2008. On July 15, 2010, the Company issued to part of the employees three year warrants to purchase up to 345,000 shares of the Company's Common Stock at a per share exercise price of \$0.01 in consideration of the waiver by such employees of amounts payable to them. At December 31, 2010, the Company's liability to its employees in respect of unpaid salaries aggregated \$301.

NOTE 8 ACCRUED EXPENSES AND OTHER LIABILITIES

	2010	December 31, 2009
Royalties to the office of the Chief Scientist	\$ 416	\$ 346
Liability results from re-organization	6	95

Other accrued expenses	199	147
	\$ 621	\$ 588

SPO MEDICAL INC.
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NOTE 9

ACCRUED SEVERANCE PAY

The Company's liability for severance pay is calculated in accordance with Israeli law based on the most recent salary paid to employees and the length of employment in the Company. The Company's liability for severance pay has been fully provided for. Part of the liability is funded through individual insurance policies. These policies are assets of the Company and under labor agreements, subject to certain limitations, they may be transferred to the ownership of the beneficiary employees.

Severance pay income for the year ended December 31, 2010 and 2009 amounted to \$21 and \$38 respectively due to settlements with ex employees.

NOTE 10

PRIVATE PLACEMENTS

A. Issuance of Common Stock

- a. On February 5, 2009 the Company issued to one of the note holders 26,500 shares of its Common Stock. See Note 6A.
- b. In March and July 2009, the Company issued to a consultant 50,000 and 200,000 shares of Common Stock, respectively, at per share purchase price of \$0.01 in respect of an agreement with the consultant for financial advisory services.
- c. In August 2009, the Company 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 Common Stock, at per share purchase price of \$0.01.
- d. In February and April 2010, pursuant to the terms of a financial advisory services agreement, the Company issued to a consultant 300,000 and 150,000 shares, respectively, of its Common Stock, at per share purchase price of \$0.01.
- e. On June 30, 2010, the Company issued 100,000 restricted shares of its Common Stock to one accredited investor pursuant to the terms of a consulting agreement for the provision of financial services.
- f. On June 30, 2010, the Company issued one of the note holders 105,074 restricted shares of its Common Stock as described in Note 6B.
- g. On each of July 27, 2010 and November 15, 2010, the Company issued 1,370,000 and 666,667, respectively, shares of its Common Stock to two accredited investors. See Note 6A

SPO MEDICAL INC.
NOTES TO THE FINANCIAL STATEMENTS
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NOTE 10

PRIVATE PLACEMENTS (cont.)

A. Issuance of Common Stock(cont.)

- h. On July 29, 2010, the Company entered into a Subscription Agreement with eight accredited investors (the "Investors"), pursuant to which the Company sold and issued to the Investors (the "Private Placement") an aggregate of 14.61 units of the Company's securities described below (the "Units") at a purchase price of \$30 per Unit, for aggregate gross proceeds of \$438

On September 16, 2010, the Company entered into a Subscription Agreement with an additional eight accredited Investors, pursuant to which the Company sold and issued to these Investors an aggregate of 6.016 Units at the per Unit price of \$30 in a second closing of its Private Placement, for aggregate gross proceeds of \$181.

Each Unit is comprised of (i) 200,000 shares of the Company's Common Stock, and (ii) a three-year warrant (the "Investor Warrant") to purchase 100,000 shares of the Company's Common Stock at a per share exercise price of \$0.25 per share.

A total of 4,125,667 shares of Common Stock were issued pursuant to the two closings described above. In addition, Investor Warrants to purchase a total of 2,062,833 shares of Common Stock at the exercise price of \$0.25 per share were issued pursuant to such closings. The Private Placement terminated on October 13, 2010.

The Company received net proceeds of \$529 after payment of \$90 of cash commissions and an expense allowance to the placement agent of the Private Placement (the "Placement Agent") and other offering expenses and related costs in connection with the Private Placement. In addition, the Company issued to the Placement Agent three-year warrants to purchase an aggregate of 742,626 shares of the Company's Common Stock, of which warrants for 495,080 shares are at an exercise price of \$0.15 per share and warrants for 247,546 shares are at an exercise price of \$0.25 per share. The warrants issued to the Placement Agent are referred to in this report collectively as the "Agent Warrants."

The Investor Warrants and Agent Warrants may be exercised in cash or pursuant to a net exercise provision if on or after the six month anniversary of issuance if there is not an effective registration statement relating to the resale of the shares of Common Stock and the share of Common Stock issuable upon exercise of the Investor Warrants and the Agent Warrants. The exercise price of the Investor Warrants and the Agent Warrants is subject to adjustment for stock splits, stock dividends, recapitalizations and also provide for certain price protection anti-dilution provisions in the event of future issuances of Common Stock or Common Stock equivalents at less than \$0.15 per share (subject to certain customary exceptions). The Investor Warrants and Agent Warrants also are subject to a blocker that would prevent each holder's Common Stock ownership at any given time from exceeding 4.999% of the Company's outstanding Common Stock, which provision may be waived by the holder on 61 days prior written notice.

The Company treated the issuance of the warrants mentioned above in accordance with ASC 815-40 Contracts in Entity's Own Equity. The Company determined that the warrants are considered derivatives and should be classified as liabilities carried at fair value through profit and loss. The reason for that classification is that the exercise price of the warrants may be adjusted in response to changes in variables not considered to be inputs to the fair value of a fixed-for-fixed option on equity shares.

i In August 2010, the Company entered into an agreement with a service provider for the provision to it of public relations services. Under the terms of the agreement the service provider received 75,000 shares of Common Stock.

j. On October 8, 2010 and November 4, 2010 the Company issued 46,925 and 360,000, respectively, shares of Common Stock upon the exercise by service providers of warrants previously issued to them.

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SPO MEDICAL INC.
NOTES TO THE FINANCIAL STATEMENTS
U.S. dollars in thousands (except share data)

NOTE 10

PRIVATE PLACEMENTS (cont.)

The accumulated effect of the grants of Common Stock to service providers on the Company's Consolidated Statement of Operations was \$95.

B. Issuance of Warrants

- a. On May 31, 2010, the Company issued to two accredited investors warrants to purchase up to 600,000 shares of its Common Stock. See Note 6A
- b. On July 1, 2010, the Company agreed to issue 5,000,000 restricted shares of its Common Stock to one accredited investor pursuant to the terms of a consulting agreement for the provision of public relations, promotion and marketing services geared to the recreational sports and wellness market. On July 6, 2010, the Company and the investor amended the agreement such that in lieu of the issuance of the 5,000,000 restricted shares, the Company issued to such investor warrants, exercisable through June 30, 2015, to purchase up to 5,000,000 shares of Common Stock at a per share exercise price of \$0.01.
- c. On July 1, 2010, the Company issued to a Non-U.S. person warrants to purchase up to 3,800,000 shares of the Company's Common Stock pursuant to the terms of a development and marketing agreement for the provision of services relating to the development, launching and marketing of the Company's products and technologies to the wellness and recreational sports market. The warrants are exercisable through June 30, 2015 at a per share price of \$0.01, as follows: commencing on August 1, 2010 and continuing through July 2011, the warrants are exercisable for up to 320,000 shares of Common Stock on the first trading day of each month and, on August 1, 2011, for 280,000 shares.
- d. On July 15, 2010, the Company issued to the employees of its subsidiary, SPO Medical Ltd, three year warrants to purchase up to 345,000 shares of the Company's Common Stock at a per share exercise price of \$0.01 in consideration of the waiver by such employees of money payable to them.
- e. On September 6, 2010, the Company issued to a consultant in connection with investor relations, PR and marketing activities, five year warrants to purchase up to 250,000 shares of Common Stock exercisable at a per share exercise price of \$0.01 and a three year warrants to purchase up to 150,000, scheduled to vest in equal installments of 18,750 shares at the end of each three month period at a per share exercise price of \$0.15.

SPO MEDICAL INC.
NOTES TO THE FINANCIAL STATEMENTS
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NOTE 11

STOCKHOLDER'S DEFECIENCY

A. Authorized Shares

On July 12, 2010, the Company's Board of Directors authorized an increase of the number of shares of Common Stock from 50,000,000 to 100,000,000 and the majority of Company's stockholders approved such increase on July 13, 2010. The increase became effective as of October 4, 2010.

The Company's Board of Directors is authorized to issue from time to time up to 2 million shares of preferred stock in one or more series, and to fix for each such series such voting power and such designations, preferences, relative participating or other rights, redemption rights, conversion privileges and such qualifications or restrictions thereof as shall be adopted by the board and set forth in an amendment to the Company's Certificate of Incorporation. Unless a vote of any shareholders is required pursuant to the rights of the holders of preferred stock then outstanding, the board may from time to time increase or decrease (but not below the number of shares of such series outstanding) the number of shares of any series of Preferred Stock subsequent to the issuance of shares of that series.

B. Equity Incentive Plans

In April 2005, the Company adopted the 2005 Equity Incentive Plan (the "2005 Plan"). A total of 1.75 million shares of Common Stock were originally reserved for issuance under the 2005 Plan. The 2005 Plan provides for the grant of incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock, bonus stock, awards in lieu of cash obligations, other stock-based awards and performance units. The 2005 Plan also permits cash payments under certain conditions. The compensation committee of the Board of Directors is responsible for determining the type of award, when and to who awards are granted, the number of shares and the terms of the awards and exercise prices. The options are exercisable for a period not to exceed ten years from the date of grant. Vesting periods range from immediately to four years. Under the 2005 plan options granted expire no later than the tenth anniversary from the date of the grant.

In April 2005, the Company adopted the 2005 Non-Employee Directors Stock Option Plan (the "2005 Directors Plan") providing for the issuance of up to 400,000 shares of Common Stock to non-employee directors. Under the 2005 Directors Plan, only non-qualified options may be issued and they will be exercisable for a period of up to six years from the date of grant.

With respect to compensation expenses recorded in 2010 and 2009, relating to options granted through December 31 2010, the Company applied the provisions of ASC 718-10, which require employee share-based equity awards to be accounted for under the fair value method, ASC 718-10 requires the use of an option pricing model for estimating fair value, which is then amortized to expense over the service periods.

During 2010 and 2009 the Company recorded Stock-based compensation expenses in the amount of \$91 and \$120, respectively.

SPO MEDICAL INC.
NOTES TO THE FINANCIAL STATEMENTS
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NOTE 11

STOCKHOLDER'S DEFECIENCY (Cont).

C.

Stock Options:

As of December 31, 2010, options for an aggregate of 130,000 shares of Common Stock remain available for future grants under the Company's 2005 Plan and 2005 Directors Plan.

	December 31, 2010	Weighted Average Exercise Price
	Amount of Options	
Outstanding at the beginning of the year *	1,880,000	\$ 0.41
Forfeited	(60,000)	0.52
Outstanding at the end of the year	1,820,000	0.41
Exercisable at the end of the year	1,820,000	0.41

* Of which 50,000 options granted to non-executive directors were re-priced during 2008

The options outstanding as of December 31, 2010, have been separated into ranges of exercise price as follows:

Range of exercise price	Options outstanding as of December 31, 2009	Weighted average remaining contractual life (years)	Weighted average exercise price	Options exercisable as of December 31, 2009	Weighted average exercise price of options exercisable
\$ 0.055	100,000	0.32	\$ 0.05	100,000	\$ 0.05
\$ 0.13-0.15	927,000	5.81	\$ 0.13	927,000	\$ 0.13
\$ 0.60	483,000	4.73	\$ 0.60	483,000	\$ 0.60
\$ 0.78	100,000	4.00	\$ 0.78	100,000	\$ 0.78
\$ 0.85	110,000	3.14	\$ 0.85	110,000	\$ 0.85
\$ 1.85	100,000	5.80	\$ 1.85	100,000	\$ 1.85
	1,820,000	4.96	\$ 0.42	1,820,000	\$ 0.42

SPO MEDICAL INC.
NOTES TO THE FINANCIAL STATEMENTS
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NOTE 11

STOCKHOLDER'S EQUITY (Cont.)

D.

Stock warrants

The Company has the following warrants outstanding:

Issuance date	number of warrants issued	Exercise price	Exercisable as of December 31, 2010	Exercisable through
2005-2010 (1)	10,522,383	0.01	8,091,133	December 2012-September 2015
2009 (2)	100,000	0.08	100,000	December 2014
2010 (3)	1,245,080	0.15	1,245,080	July- December 2013
2010 (4)	2,310,379	0.25	2,310,379	July -September 2013
March-June 2008 (5)	384,375	0.80	384,375	March- June 2011
September 2007 (6)	40,000	1.50	40,000	September 2011

1) Penny warrants issued to employees 345,000, service providers 9,431,000, ex-employees 646,383 and 100,000 warrants issued to lenders in return for extension of the their loans.

2) Warrants issued to directors in lieu of outstanding fees owed to them.

3) 600,000 warrants issued to loaners in return for extension of the their loans, 150,000 to a service provider and 495,080 warrants issued in connection with capital raise during 2010 (see also Note 10)

4) warrants issued in connection with capital raise during 2010 (see also Note 10)

5) Warrants issued to investors in private placement during 2008

6) Warrants Issued to a service provider.

E.

Dividends

The Company does not intend to pay cash dividends in the foreseeable future.

SPO MEDICAL INC.
NOTES TO THE FINANCIAL STATEMENTS
U.S. dollars in thousands (except share data)

NOTE 12 RESEARCH AND DEVELOPMENT EXPENSES, NET

Research and development expenses consist of the following:

	2010	December 31, 2009
Research and development expenses	\$ 372	\$ 676
Grants from Office of the Chief Scientist of the Government of Israel	70	262
Research and development expenses, net	\$ 302	\$ 414

NOTE 13 RESTRUCTURING EXPENSES AND RESTRUCTURING OF DEBT (INCOME)

In January 2010, the Company completed a restructuring plan in an attempt to focus primarily on licensing its core technology for non-medical market applications. The restructuring plan included a reduction of the Company's corporate and manufacturing workforce and entering into an alliance and license agreement as discussed in Note 4.

In December 2009 the Company reached an understanding with its non-executive directors pursuant to which the outstanding directors fees owing to such persons was waived in consideration of the issuance to them of warrants to purchase, in the aggregate, 100,000 shares of the Company's Common Stock. The warrants are exercisable through January 17, 2015 and have a per share exercise price of \$0.08.

At December 31, 2009, the Company decided to write off \$262 of debt that had aged in excess of seven years that was originally recorded following the Company's reverse merger with United Diagnostics in 2005.

NOTE 14 FINANCIAL EXPENSES

Financial expenses, for the years 2010 and 2009 were \$299 and \$263 respectively. The principal expenses comprising the financial expenses during 2010 and 2009 were: (i) non cash amortization of warrants granted to loaners in return for extension of the their loans and issuance of shares to financial service provider \$172 and \$ 29 respectively, (ii) Non-cash financial expenses related to warrants to issue shares in the amount of \$16 in 2010 (iii) interest in respect of debt instruments issued by the Company between April 2005 and October 2006 - \$19 and \$112 respectively and (vi) 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- \$92 and \$122,

SPO MEDICAL INC.
NOTES TO THE FINANCIAL STATEMENTS
U.S. dollars in thousands (except share data)

NOTE 15 DEFERRED TAXES

A. Measurement of taxable income under the Income Tax Law (Inflationary Adjustments), 1985:

The results for tax purposes of the Israeli subsidiary are measured in terms of earnings in NIS. As explained in Note 3C, the functional currency is the U.S. dollar., The Company has not provided deferred income taxes on the difference between the functional currency and the tax bases of assets and liabilities at the Israeli subsidiary.

B. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

In accordance with ASC 740-10, the components of deferred income taxes are as follows:

	December 31, 2010	2009
Tax on net operating losses carryforward	\$ 2,250	\$ 1,997
Less - valuation allowance	(2,250)	(1,997)
	-	-

C. The Company has provided valuation allowances in respect of deferred tax assets resulting from tax loss carryforward and other temporary differences. Management currently believes that since the Company has a history of losses it is more likely than not that the deferred tax regarding the loss carryforward and other temporary differences will not be realized in the foreseeable future.

Net operating loss carryforwards as of December 31, 2010 and 2009 are as follows:

	December 31, 2010	2009
Israel	\$ 7,329	\$ 6,352
USA	2,658	2,438
Total	\$ 9,987	\$ 8,790

Net operating losses in Israel may be carried forward indefinitely. Net operating losses in the U.S. are available through 2035.

SPO MEDICAL INC.
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NOTE 16

COMMITMENTS AND CONTINGENCIES

Government of Israel

The Company's wholly owned subsidiary, SPO Ltd., is committed to pay royalties to the Office of the Chief Scientist of the Government of Israel ("OCS") on sales of products, the research and development of which the OCS has participated in by way of grants, up to the amount of 100%-150% of the grants received plus interest at dollar LIBOR. The royalties are payable at a rate of 3% for the first three years of product sales and 3.5% thereafter. The total amount of grants received or accrued, net of royalties paid or accrued, as of December 31, 2010 was \$1.3 million. The refund of the grants is contingent upon the successful outcome of the research and development and the attainment of sales. The Company has no obligation to refund these grants, if sales are not generated. The financial risk is assumed completely by the OCS. The grants were received from the OCS on a project-by-project basis. If the project fails the Company has no obligation to repay any grant received for the specific unsuccessful or aborted project. As of December 31, 2010 the Company has provided for \$416 (2009 - \$346) in royalties from sales of its products. Owing to the current financial situation of the Company, the Company has deferred these payments under an informal agreement with the OCS.

NOTE 17

SUBSEQUENT EVENTS

On March 25, the Company and one of its stock holders entered into a loan agreement pursuant to which the stock holders loaned to the Company \$50,000 for working capital purposes. The original maturity date of the loan is March 25, 2012. The loan bears interest at a per annum rate of 8%.