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

FORM 10-Q

(Mark one)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2012

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 0-5576

SPHERIX INCORPORATED

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

52-0849320
(I.R.S. Employer Identification No.)

6430 Rockledge Drive, Suite 503, Bethesda, MD 20817
(Address of principal executive offices)

301-897-2540
(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition 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 Smaller Reporting Company

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Indicate the number of shares outstanding of each of the Registrant's classes of Common Stock, as of the latest practicable date.

Class
Common Stock, \$0.01 par value

Outstanding as of August 8, 2012
4,159,776 shares

Spherix Incorporated

Form 10-Q For the Quarter Ended June 30, 2012

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Part I. Financial Information

Item 1. Financial Statements

Condensed Consolidated Statements of Operations (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Revenue	\$ 206,103	\$ 186,050	\$ 415,665	\$ 492,353
Operating expenses				
Direct costs	(134,001)	(119,019)	(243,465)	(249,315)
Research and development expense	(138,250)	(404,499)	(509,653)	(760,002)
Selling, general and administrative expense	(682,349)	(685,514)	(1,568,021)	(1,617,718)
Total operating expenses	(954,600)	(1,209,032)	(2,321,139)	(2,627,035)
Loss from operations	(748,497)	(1,022,982)	(1,905,474)	(2,134,682)
Interest income	922	866	1,944	2,085
Other income	-	8,377	-	53,007
Gain on settlement of obligations	-	-	-	845,000
Loss before taxes	(747,575)	(1,013,739)	(1,903,530)	(1,234,590)
Income tax expense	-	-	-	(14,485)
Net loss	<u>\$ (747,575)</u>	<u>\$ (1,013,739)</u>	<u>\$ (1,903,530)</u>	<u>\$ (1,249,075)</u>
Net loss per share, basic	\$ (0.18)	\$ (0.40)	\$ (0.48)	\$ (0.50)
Net loss per share, diluted	\$ (0.18)	\$ (0.40)	\$ (0.48)	\$ (0.50)
Weighted average shares outstanding, basic	<u>4,159,777</u>	<u>2,562,488</u>	<u>3,940,898</u>	<u>2,505,568</u>
Weighted average shares outstanding, diluted	<u>4,159,777</u>	<u>2,562,488</u>	<u>3,940,898</u>	<u>2,505,568</u>

See accompanying notes to financial statements

Spherix Incorporated

Condensed Consolidated Balance Sheets

ASSETS	June 30, 2012 (Unaudited)	December 31, 2011
Current assets		
Cash and cash equivalents	\$ 4,198,890	\$ 4,911,350
Trade accounts receivable, net of allowance of \$0 and \$8,174	209,506	286,065
Other receivables	17,648	293
Prepaid research expenses	-	209,780
Prepaid expenses and other assets	55,168	120,427
Total current assets	4,481,212	5,527,915
Property and equipment, net of of accumulated depreciation of \$299,445 and \$265,502	59,138	91,482
Patents, net of accumulated amortization of \$0 and \$2,146	-	-
Deposit	25,625	35,625
Total assets	\$ 4,565,975	\$ 5,655,022
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued expenses	\$ 180,096	\$ 269,996
Accrued salaries and benefits	354,166	549,815
Deferred revenue	105,275	72,871
Total current liabilities	639,537	892,682
Deferred rent	40,423	47,675
Total liabilities	679,960	940,357
Commitments and contingencies		
Stockholders' equity		
Preferred stock, \$0.01 par value, 2,000,000 shares authorized; 5,250 series B issued and 1 outstanding at June 30, 2012 and December 31, 2011	-	-
Common stock, \$0.01 par value, 50,000,000 shares authorized; 4,167,820 and 3,103,004 issued, 4,159,777 and 3,094,461 outstanding at June 30, 2012 and December 31, 2011, respectively	41,678	31,030
Paid-in capital in excess of par value	43,359,538	42,295,306
Treasury stock, 8,043 shares	(464,786)	(464,786)
Accumulated deficit	(39,050,415)	(37,146,885)
Total stockholders' equity	3,886,015	4,714,665
Total liabilities and stockholders' equity	\$ 4,565,975	\$ 5,655,022

See accompanying notes to financial statements

Spherix Incorporated

Condensed Consolidated Statements of Cash Flows (Unaudited)

	Six Months Ended June 30,	
	2012	2011
Cash flows from operating activities		
Net loss	\$(1,903,530)	\$ (1,249,075)
Adjustments to reconcile net loss to net cash used in operating activities:		
Gain on settlement of obligations	-	(845,000)
Depreciation and amortization	33,943	36,108
Provision for doubtful accounts	(8,174)	(13,525)
Stock-based compensation	19,527	-
Changes in assets and liabilities:		
Receivables	67,378	288,060
Prepaid expenses and other assets	285,039	220,157
Accounts payable and accrued expenses	(285,549)	(567,545)
Deferred rent	(7,252)	(16,068)
Deferred compensation	-	(305,000)
Deferred revenue	32,404	(102,199)
Net cash used in operating activities	(1,766,214)	(2,554,087)
Cash flow from investing activities		
Purchase of fixed assets	(1,599)	(2,374)
Net cash used in investing activities	(1,599)	(2,374)
Cash flow from financing activities		
Proceeds from issuance of common stock, net	1,055,353	2,545,349
Net cash provided by financing activities	1,055,353	2,545,349
Net decrease in cash and cash equivalents	(712,460)	(11,112)
Cash and cash equivalents, beginning of period	4,911,350	5,575,310
Cash and cash equivalents, end of period	\$ 4,198,890	\$ 5,564,198

See accompanying notes to financial statements

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Notes to the Condensed Consolidated Financial Statements (Unaudited)

1. Basis of Presentation

The accompanying condensed consolidated financial statements of the Company are unaudited, except for the condensed consolidated balance sheet as of December 31, 2011, which was derived from the audited financial statements as of and for the year ended December 31, 2011, and do not include all of the information and disclosures generally required for annual financial statements. In the opinion of management, the statements contain all material adjustments (consisting of normal recurring accruals) necessary to present fairly the Company's financial position as of June 30, 2012, the results of its operations for the three- and six-month periods ended June 30, 2012 and 2011, and its cash flows for the six-month periods ended June 30, 2012 and 2011. This report should be read in conjunction with the Company's Annual Report on Form 10-K, which contains information and disclosure for the year ended December 31, 2011.

The Company operates via two principal segments, Biospherics and Health Sciences. Biospherics seeks to develop proprietary products for commercial application. Health Sciences provides technical and regulatory consulting services to biotechnology and pharmaceutical companies, as well as providing technical support for the Biospherics segment.

The Company has two wholly-owned subsidiaries, Biospherics Incorporated and Spherix Consulting, Inc., for its two operating segments. The Company's Health Sciences contracts are in the name of Spherix Consulting, Inc. and the Company's patents are in the name of Biospherics Incorporated. Spherix Incorporated provides management, strategic guidance, business development, marketing and other services to its subsidiaries.

On May 6, 2011, the Company effected a one-for-ten reverse split of its common stock. The Company implemented the reverse stock split under the authority granted to the Board of Directors by the Company's stockholders at the annual meeting of stockholders held on November 17, 2009, to effect a reverse stock split of the Company's Common Stock, par value \$0.01 per share. The reverse stock split reduced the number of outstanding shares of Common Stock from 25,624,872 shares to 2,562,488 shares. All per share amounts and outstanding shares, including all Common Stock equivalents, stock options, equity compensation plans, and warrants, have been retroactively restated in the Financial Statements and in the Notes to the Financial Statements for all periods presented to reflect the reverse stock split.

2. Liquidity and Capital Resources

We expect to continue to incur substantial development costs in our Biospherics segment in the next several years, without substantial corresponding revenue, and we will continue to incur ongoing administrative and other expenses, including public company expenses. We intend to finance our activities through:

- the remaining proceeds of our previous equity offerings; and
- funds we will seek to raise through the sale of additional stock in the future.

Working capital was \$3.8 million at June 30, 2012, and cash on hand as of that date was \$4.2 million. Management believes that this cash on hand will be sufficient to sustain operations for 2012. We expect that we will need to expend between \$3 million to \$5 million over the next twelve (12) months to support our currently planned development operations. This estimate assumes (i) no further significant expenditures for developing D-tagatose as a drug for diabetes, (ii) continuing development of SPX-106T as a treatment for high triglycerides and other dyslipidemias, (iii) ongoing operation of the Health Sciences segment at the current level of activity and (iv) that we raise additional funds to continue our development efforts beyond this 12-month period.

In February 2012, the Company obtained net proceeds of approximately \$1.1 million in a registered direct offering of common stock and warrants. Both the common stock issued in the offering and the underlying common stock for the warrants issued in the offering were previously registered under a Form S-3 shelf registration statement declared effective by the SEC in October 2009.

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Due to the nature of our business, we will need to raise additional funds on a consistent basis to continue operations, to fully pursue the triglycerides and other dyslipidemias opportunity, and to seek, investigate, pursue and exploit other pipeline development opportunities. Fundraising will likely require the issuance of additional equity securities and a purchaser of such securities will likely insist that such securities be registered securities. NASDAQ rules require stockholder approval for certain stock issuances constituting twenty percent (20%) or more of a company's issued and outstanding stock.

The Company currently has an effective Form S-3 shelf registration statement under which 2,695,350 common shares remain available for issuance. However, it is unlikely that the Company will be able to use this shelf registration statement for another significant offering prior to its expiration on October 1, 2012. Following the expiration of this registration, the Company will need to file another shelf registration statement subject to SEC approval in order to proceed with future equity offerings.

The Company cannot be assured that it will be able to attract a purchaser of securities to raise the additional funds it will likely require; that the Company will be able to obtain any required stockholder approval; or that the Company will be able to have additional registered direct primary offerings. If we reach a point where we are unable to raise needed additional funds to continue our business activities, we will be forced to cease our development activities and dissolve the Company. In such an event, we will need to satisfy various severance, lease termination and other dissolution-related obligations.

3. Common Stock and Paid-in Capital in Excess of Par

During the six months ended June 30, 2012, the Company issued shares of common stock as follows:

	<u>Preferred Stock</u>		<u>Common Stock</u>		<u>Paid-in Capital in Excess of Par</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>	
Balance, January 1, 2012	1	\$ -	3,103,004	\$ 31,030	\$ 42,295,306
Sale of common stock, net of offering costs of \$94,648 (1)	-	-	1,064,816	10,648	1,044,705
Stock-based compensation	-	-	-	-	19,527
Balance, June 30, 2012	<u>1</u>	<u>\$ -</u>	<u>4,167,820</u>	<u>\$ 41,678</u>	<u>\$ 43,359,538</u>

(1) The stock issuance is further discussed in Note 2, "Liquidity and Capital Resources"

4. Accounts Receivable

The Company's accounts receivable includes amounts owed by customers for consulting related activities under contracts signed with those customers. Included in the June 30, 2012 and December 31, 2011 accounts receivable is \$100,000 and \$54,000, respectively, for services that have been performed but as of those dates had not been billed.

Credit is extended to customers based on an evaluation of a customer's financial condition and, in general, collateral is not required. Management regularly reviews accounts receivable for uncollectible and potentially uncollectible accounts, and when necessary establishes an allowance for doubtful accounts. Balances that are outstanding after management has used reasonable collection efforts are written-off through a charge to the allowance for doubtful accounts and a credit to accounts receivable. At June 30, 2012 and December 31, 2011, the allowance for doubtful accounts was \$0 and \$8,000, respectively.

5. Concentrations of Risk

The Company maintains cash balances at several banks. Interest bearing accounts at each institution are insured by the Federal Deposit Corporation up to \$250,000. At June 30, 2012, the Company's cash and cash equivalents in excess of the FDIC limits were \$3.9 million. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant risks.

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During the six months ended June 30, 2012 and 2011, 100% of our revenue was generated from the Health Sciences business. For the six months ended June 30, 2012, revenue from four customers accounted for 34%, 24%, 11% and 10% of revenues, respectively. For the six months ended June 30, 2011, revenue from two customers accounted for 44% and 23% of revenues, respectively. At June 30, 2012, four major contracts constituted 67% of the trade accounts receivable, the components of which were 24%, 18%, 13% and 12%, respectively. At December 31, 2011, three major contracts constituted 62% of the trade accounts receivable, the components of which were 35%, 14% and 13%, respectively. No other single contract was greater than 10% of total trade accounts receivable.

6. Use of Estimates and Assumptions

The accompanying condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("US GAAP"). This requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the period. Accordingly, actual results could differ from those estimates and assumptions.

7. New Accounting Pronouncements

In June 2011, the FASB issued a new accounting standard on the presentation of comprehensive income. The new standard requires the presentation of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The new standard also requires presentation of adjustments for items that are reclassified from other comprehensive income to net income in the statement where the components of net income and the components of other comprehensive income are presented. In December 2011, the FASB deferred the effective date for amendments to the presentation of reclassifications of items out of accumulated other comprehensive income, while still requiring entities to adopt the other requirements. We adopted the new standard on January 1, 2012. The adoption of this standard had no impact on our consolidated financial statements. We are required to adopt the requirements for reclassification of items out of accumulated other comprehensive income as of the beginning of 2013. We do not expect this adoption to have a material impact on our financial statements.

8. Fair Value Measurement

The Company has elected not to apply the fair value option to measure any of the financial assets and liabilities on its balance sheet not already valued at fair value under other accounting pronouncements. These other financial assets and liabilities are primarily accounts receivable and accounts payable, which are reported at historical value. The fair value of these financial assets and liabilities approximate their fair value because of their short duration.

9. Net Loss Per Share

Basic net loss per common share has been computed by dividing net loss by the weighted-average number of common shares outstanding during the year. Diluted net loss per common share has been computed by dividing net loss by the weighted-average number of common shares outstanding without an assumed increase in common shares outstanding for common stock equivalents, as common stock equivalents are antidilutive for each of the three- and six-month periods ended June 30, 2012 and 2011. Options for 22,512 shares of common stock were excluded from diluted net loss per common share because they would be antidilutive for the three- and six-month periods ended June 30, 2012. For the three- and six-month periods ended June 30, 2011, none of the Company's outstanding options and none of the warrants were included in the calculation of diluted earnings per share as the exercise prices were all above the average market price of the Company's common stock for the period.

10. Accounting for Stock-Based Compensation

The Company recognized approximately \$17,000 and \$20,000 in stock-based compensation expense during the three and six months ended June 30, 2012, respectively and had \$36,000 of unrecognized compensation as of that date, which will be recognized over the remaining 3.4 years. For the three and six months ended June 30, 2011, the Company had no stock-based compensation expense.

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A summary of option activity under the Company's employee stock option plan for the six-months ended June 30, 2012, is presented below:

<u>Options</u>	<u>Shares</u>	<u>Weighted- Average Exercise Price</u>	<u>Weighted- Average Remaining Contractual Term</u>	<u>Aggregate Intrinsic Value</u>
Outstanding at beginning of year	48,509	\$ 2.68		
Granted	22,512	\$ 0.76		
Exercised	-	\$ -		
Expired or forfeited	-	\$ -		
Outstanding at end of period	<u>71,021</u>	\$ 2.07	4.5	\$ -
Options exercisable at end of period	46,021		4.5	\$ -
Weighted-average fair value of options granted during the year	\$ 0.63			

11. Income Taxes

Deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each year end, based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. A valuation allowance is established based upon periodic assessments made by management to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the current tax provision for the period and the change during the period in deferred tax assets and liabilities. The Company recognizes a tax expense associated with an uncertain tax position when, in management's judgment, it is not more likely than not that the position will be sustained upon examination by a taxing authority. As of and for the three- and six-month periods ended June 30, 2012 and 2011, no tax expense was recognized for uncertain tax positions.

The Company's estimated annual effective tax rate is zero for the first six months of 2012 and 2011. The effective income tax rate for the quarter ended June 30, 2012 is zero as compared to the quarter ended June 30, 2011 which was approximately -1.2% as a result of realizing a discrete item, which resulted in income tax expense of \$15,000 in the first quarter of 2011. As of June 30, 2012, the Company continues to provide a valuation allowance against its net deferred tax assets since the Company believes it is more likely than not that its deferred tax assets will not be realized. At the quarter ended June 30, 2012 and 2011, the Company had no unrecognized income tax benefits and recognized no interest or penalties on income tax liabilities.

Utilization of the net operating loss carryforwards and credit may be subject to a substantial annual limitation due to the ownership change limitations provided by the Internal Revenue Code of 1986, as amended, and similar state provisions. The Company has not performed a detailed analysis to determine whether an ownership change under Section 382 of the Internal Revenue Code occurred. The effect of an ownership change would be the imposition of an annual limitation on the use of net operating loss carryforwards attributable to periods before the change and could result in a reduction in the total net operating losses and research credits available.

12. Commitment and Contingencies

Leases

In March 2012, the Company entered into an amendment to its office building lease, which extends the term of the lease five years. The lease as amended will expire on March 31, 2018. Commencing on April 1, 2012, the base annual rent shall be \$152,500, with an increase of 3% annually.

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Related Party Transactions

Stock option awards are provided to members of the Board of Directors as a regular component of annual compensation. The number of stock options awards to each non-employee Board member is calculated by dividing \$10,000 by the closing stock price of the grant date. Stock options are awarded to each non-employee Board member in May of each year; provided, however, that in 2012 the Company did not have sufficient shares available under the 1997 Stock Option Plan (the "Plan") to fully compensate the Board members. Accordingly, the Company issued stock options to each non-employee director with a value of \$4,278 instead of the \$10,000 in stock options as required under its directors' compensation plan. If the Stockholders approve the amendment to increase the number of shares issuable under the Plan, each of the non-employee directors will receive \$5,722 of options valued at the date the Stockholders approve the amendment to the Plan. If the Stockholders do not approve the amendment, the Company will satisfy this obligation to its Directors in cash.

13. Information by Business Segment

Operating segments are components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision-making group, in deciding how to allocate resources and in assessing performance. The Company operates via two principal segments, Biospherics and Health Sciences. Biospherics seeks to develop proprietary products for commercial application. Health Sciences provides technical and regulatory consulting services to biotechnology and pharmaceutical companies, as well as aiding the Biospherics segment.

Financial information by business segment for the three and six months ended June 30, 2012 and 2011 is summarized below:

		Three Months Ended June 30,		Six Months Ended June 30,	
		2012	2011	2012	2011
Revenue	Biospherics	\$ -	\$ -	\$ -	\$ -
	Health Sciences	206,000	186,000	416,000	492,000
	Total revenue	<u>\$ 206,000</u>	<u>\$ 186,000</u>	<u>\$ 416,000</u>	<u>\$ 492,000</u>
Operating Profit (Loss) and Loss from Operations Before Income Taxes	Biospherics	\$ (156,000)	\$ (430,000)	\$ (659,000)	\$ (837,000)
	Health Sciences	33,000	35,000	105,000	158,000
	General	(626,000)	(628,000)	(1,352,000)	(1,456,000)
	Total operating loss	(749,000)	(1,023,000)	(1,906,000)	(2,135,000)
	Interest income	1,000	1,000	2,000	2,000
	Other income	-	8,000	-	53,000
	Gain on settlement of obligations	-	-	-	845,000
	Loss from operations before income taxes	<u>\$ (748,000)</u>	<u>\$ (1,014,000)</u>	<u>\$ (1,904,000)</u>	<u>\$ (1,235,000)</u>
			June 30,	Dec. 31,	
		2012	2011		
Identifiable Assets	Biospherics	\$ 17,000	\$ 287,000		
	Health Sciences	210,000	193,000		
	General corporate assets	4,339,000	5,175,000		
	Total assets	<u>\$ 4,566,000</u>	<u>\$ 5,655,000</u>		

14. Gain on Settlement of Obligations

Purchase Commitments

On January 14, 2011, Biospherics Incorporated, filed a Complaint For Injunction Relief And Damages in The United States District Court For The District Of Maryland against Inalco S.p.A. (the "Complaint"). The Complaint alleged that one of the Company's D-Tagatose suppliers, Inalco, had breached the 2009 Manufacturing Support and Supply Agreement as Inalco (i) refused to supply D-tagatose previously paid for by Biospherics, (ii) refused to provide a promised bank guarantee, and (iii) shut-down its D-tagatose production facilities. On March 16, 2011, both parties signed a settlement agreement whereby Inalco agreed to supply Spherix with 8.5 metric tons of D-tagatose, which has

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been received by Spherix, and both parties have released each other from any other obligations under the previous agreement. As a result, the Company recognized a gain on settlement of obligations of \$600,000 in March 2011 on the release from its purchase obligation.

Related Party Transactions

In January 2011, the Company entered into a Letter Agreement with Gilbert V. Levin and M. Karen Levin pursuant to which the Company agreed to make a one-time lump sum payment of \$450,000 to the Levins in full satisfaction of the Company's obligation to make a series of continuing payments to the Levins relating to their prior employment by the Company. The Company's estimated liability to the Levins prior to the above agreement was approximately \$695,000. The \$450,000 lump sum payment was made on January 31, 2011, and the Company recognized the \$245,000 difference as a gain on settlement of obligations in January 2011.

15. Subsequent Events

The Company evaluated all events or transactions after June 30, 2012 through the date the financial statements were issued. During this period, the Company did not have any significant subsequent events.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following is intended to update the information contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2011, and presumes that readers have access to, and will have read, "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in such Form 10-K.

Certain statements in this Quarterly Report on Form 10-Q may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 and are identified by the use of forward-looking words or phrases such as "believes," "expects," is or are "expected," "anticipates," "anticipated," "should" and words of similar impact. These forward-looking statements are based on the Company's current expectations. Because forward-looking statements involve risks and uncertainties, the Company's actual results could differ materially.

Overview

The Company operates via two segments, Biospherics and Health Sciences. Biospherics seeks to develop proprietary pharmaceutical products. Health Sciences provides technical and regulatory consulting services to food, consumer products, biotechnology and pharmaceutical companies, as well as providing technical support to the Biospherics segment.

Biospherics is dedicated to development of pharmaceuticals. Recently, the Company has focused its studies on treating high triglycerides and other dyslipidemias with a combination of D-tagatose and SPX-106, a licensed drug compound, which combination is referred to as SPX-106T. Animal studies of SPX-106T are ongoing and an initial human efficacy study could begin in the fourth quarter of 2012.

Tagatose, a naturally occurring sugar, is a low-calorie, full-bulk sweetener previously approved by the Food and Drug Administration ("FDA") as a GRAS (Generally Recognized As Safe) food ingredient. It is a true sugar that looks, feels, and tastes like table sugar. During human safety studies supporting food use, we discovered and patented a number of health and medical uses for D-tagatose.

The Company is also exploring the possibility of increasing its pipeline of potential products by obtaining by license or acquisition other clinical stage compounds/orphan drugs for continued development and commercialization. Orphan drug status by the FDA is usually applied to products where the number of patients in the United States in the given disease category is typically less than 200,000. The European Medicines Agency adopted a similar system termed "The Regulation of Orphan Medicinal Products." These Orphan drug indications typically require more modest investment in the development stages, followed by a quicker regulatory path to approval.

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We have incurred negative cash flow from operations in each of the two most recent fiscal years. We anticipate incurring negative cash flows from operating activities for the foreseeable future. We have spent, and expect to continue to spend, substantial amounts in connection with implementing our business strategy, including our product development efforts.

On April 20, 2012, Company received a deficiency notice from NASDAQ regarding the bid price of the Company's common stock. The Company has requested that its stockholders approve a reverse stock split. If the stockholders approve this action at the upcoming annual meeting of stockholders, the Company intends to effect a reverse stock split with the hope that it will cause an increase in the Company's stock price.

Results of Operations for the Three and Six Months Ended June 30, 2012 and 2011

Revenue and Direct Costs

Revenue and direct contract costs are primarily related to the Company's Health Sciences business. The consulting business generally provides services on either a fixed-price basis or a "time and expenses" basis, charging hourly rates for each staff member involved in a project, based on his or her skills and experience. The decrease in revenue for the six months ended June 30, 2012 is primarily related to lower effective billing rates on contracts from those of the corresponding 2011 period. Revenue and direct costs for the three months ended June 30, 2012 were consistent with those of the three months ended June 30, 2011.

No substantial revenue is expected from the Biospherics segment until the Company is successful in selling or licensing its technology.

Research and Development

Research and development expenditures relate solely to the Biospherics segment and consist primarily of salaries and related personnel costs, fees paid to consultants and outside service providers, and other expenses related to our efforts to develop SPX-106T for use in lowering triglyceride and cholesterol levels. We expense our research and development costs as they are incurred.

An application for an Investigational New Drug ("IND") for the drug-drug combination SPX-106T, composed of D-tagatose and SPX106, is being prepared for submission to the US Food and Drug Administration ("FDA"), and a human phase 1a single dose trial may begin in Q4 2012, followed by a phase 1b multiple dose trial in 2013. We estimate that it will likely take 3 or more years to complete the studies/trials necessary to attract a pharma partner to complete the development and an additional 2-4 years to complete all necessary studies for an NDA filing for SPX-106T.

The decrease in R & D costs for the three and six months ended June 30, 2012 from those of the corresponding period of the prior year reflects the completion of SPX-106T preclinical studies. Provided an IND for SPX-106T is approved by the FDA, the Company expects R&D costs to significantly increase as the study progresses through each phase of human clinical study.

Cardiovascular disease, diabetes, metabolic syndrome, cancer, and infections are complex and thus, combination therapies targeting multiple points in the pathophysiological process offer significant advantages over monotherapies. These advantages include improving therapeutic responses, preventing adverse and or/toxic effects, and minimizing drug resistance. Biospherics has been focusing on the development of new combination therapies for the treatment of complex diseases. In transitioning from an asset centric to disease centric drug development strategy, Biospherics has begun using dynamic data-driven application simulation ("DDDAS") to model complex metabolic disease processes, simulate the effects of potential combination therapies, and choose the most effective combinations for development. Lead compounds are then tested in animals for proof-of-concept.

Using DDDAS, Biospherics has identified lead compounds for the treatment of hyperlipidemia, abdominal aortic aneurysms ("AAAs") and interstitial cystitis/painful bladder syndrome ("IC/PBS"). Biospherics has initiated development of SPX723, which was licensed from the University of Kentucky and will be used in combination with D-tagatose ("SPX723T") for the treatment of hyperlipidemia. Biospherics recently obtained sufficient quantities of SPX723 and intends to begin animal testing before the end of the year. Hyperlipidemia is also a primary risk factor for

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AAAs and SPX106T reduces hyperlipidemia. Thus, the application of SPX106T and potentially SPX723T to the treatment of AAAs may provide Biospherics with new market for these two combination therapies. Animal studies evaluating the effects of SPX106T on AAAs are currently underway. For IC/PBS, leads were identified and animal studies are planned for 4Q 2012.

Biospherics has filed for patent protection on SPX100, a novel compound that may prove efficacious in the treatment of diseases with inflammatory components. Synthesis of SPX100 is currently underway and an animal study may commence by the end of the year.

The Company is also seeking to in-license or acquire additional drugs to diversify its pipeline. Clinical-stage compounds (Phase 1 or Phase 2) are of particular interest, as are orphan drugs, which can be eligible for accelerated approval processes.

Selling, General and Administrative

Our selling, general and administrative (S,G&A) expenses consist primarily of salaries and related expenses for executive, finance and other administrative personnel, professional fees and other corporate expenses, including facilities-related expenses. S,G&A expenses for the three and six months ended June 30, 2012 and 2011 were consistent between years.

Interest

Interest income for the three and six months ended June 30, 2012 was consistent with the prior year and primarily derived from interest earned on the net proceeds of our equity offerings.

Other Income

In October 2010, the Company was awarded two one-time grants from the U.S. Government under the Patient Protection and Affordable Care Act. The awards were for the Company's Diabetes and Triglyceride research. As a result, the Company recognized \$53,000 in other income for the three and six month periods ended June 30, 2011; no such grants were received during the six-month period ended June 30, 2012.

Gain on Settlement of Obligations

On January 14, 2011, Biospherics Incorporated, a wholly-owned subsidiary of the Company, filed a Complaint For Injunction Relief And Damages in The United States District Court For The District Of Maryland against Inalco S.p.A. (the "Complaint"). The Complaint alleged that Inalco had breached the 2009 Manufacturing Support and Supply Agreement as Inalco (i) refused to supply D-tagatose previously paid for by Biospherics, (ii) refused to provide a promised bank guarantee, and (iii) shut-down its D-tagatose production facilities. On March 16, 2011, both parties signed a settlement agreement whereby Inalco agreed to supply Spherix with 8.5 metric tons of D-tagatose, which has been received by Spherix, and both parties have agreed to release each other from any other obligations under the previous agreement. As a result, the Company recognized a gain of \$600,000 in March 2011 on the release from its purchase obligation.

In January 2011, the Company entered into a Letter Agreement with Gilbert V. Levin and M. Karen Levin pursuant to which the Company agreed to make a one time lump sum payment of \$450,000 to the Levins in full satisfaction of the Company's obligation to make a series of continuing payments to the Levins relating to their prior employment by the Company. Per the terms of the agreement, Gilbert V. Levin resigned as a member of the Board of Directors of the Company on January 13, 2011. The Company's estimated liability to the Levins at December 31, 2010, and prior to the above agreement was approximately \$695,000. The \$450,000 lump sum payment was made on January 31, 2011, and the Company recognized the \$245,000 difference as a gain on settlement of obligations in January 2011.

No similar gains were realized during the six-month period ended June 30, 2012.

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Liquidity and Capital Resources, Consolidated

We expect to continue to incur substantial development costs in our Biospherics segment in the next several years, without substantial corresponding revenue, and we will continue to incur ongoing administrative and other expenses, including public company expenses. We intend to finance our activities through:

- the remaining proceeds of our equity offerings; and
- additional funds we will seek to raise through the sale of additional stock in the future.

Working capital was \$3.8 million at June 30, 2012, and cash on hand as of that date was \$4.2 million. Management believes that this cash on hand will be sufficient to sustain operations for 2012. We expect that we will need to expend between \$3 million to \$5 million over the next twelve (12) months to support our currently planned development operations. This estimate assumes (i) no further significant expenditures for developing D-tagatose as a drug for diabetes, (ii) continuing development of SPX-106T as a treatment for high triglycerides and other dyslipidemias, (iii) ongoing operation of the Health Sciences segment at the current level of activity and (iv) that we raise additional funds to continue our development efforts beyond this 12-month period.

In February 2012, the Company obtained net proceeds of approximately \$1.1 million in a registered direct offering of common stock and warrants. Both the common stock issued in the offering and the underlying common stock for the warrants issued in the offering were previously registered under a Form S-3 shelf registration statement declared effective by the SEC in October 2009.

Due to the nature of our business, we will need to raise additional funds on a consistent basis to continue operations, to fully pursue the triglycerides and other dyslipidemias opportunity, and to seek, investigate, pursue and exploit other pipeline development opportunities. Fundraising will likely require the issuance of additional equity securities and a purchaser of such securities will likely insist that such securities be registered securities. NASDAQ rules require stockholder approval for certain stock issuances constituting twenty percent (20%) or more of a company's issued and outstanding stock.

The Company currently has an effective Form S-3 shelf registration statement under which 2,695,350 common shares remain available for issuance. However, it is unlikely that the Company will be able to use this shelf registration statement for another significant offering prior to its expiration on October 1, 2012. Following the expiration of this registration, the Company will need to file another shelf registration statement subject to SEC approval in order to proceed with future equity offerings.

The Company cannot be assured that it will be able to attract a purchaser of securities to raise the additional funds it will likely require; that the Company will be able to obtain any required stockholder approval; or that the Company will be able to have additional registered direct primary offerings. If we reach a point where we are unable to raise needed additional funds to continue our business activities, we will be forced to cease our development activities and dissolve the Company. In such an event, we will need to satisfy various severance, lease termination and other dissolution-related obligations.

Item 4. Controls and Procedures

Inherent Limitations on the Effectiveness of Controls

Management, including our Chief Executive Officer and Chief Financial Officer, do not expect that our disclosure controls and procedures will prevent all errors and fraud. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable, not absolute, assurance of achieving the desired control objectives. Further, the design of a control system must reflect the fact that there are resource constraints, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management's override of the control. The design of any system of controls also is based in part

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upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports, such as this report on Form 10-Q, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. These controls and procedures are based closely on the definition of "disclosure controls and procedures" in Rule 13a-15(e) promulgated under the Exchange Act. Rules adopted by the SEC require that we present the conclusions of the Chief Executive Officer and Chief Financial Officer about the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report.

The Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures to provide reasonable assurance of achieving their objective pursuant to Exchange Act Rule 13a-14. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective at a reasonable assurance level, as of June 30, 2012.

Changes in Internal Controls over Financial Reporting

There were no changes in the Company's internal control over financial reporting during the period covered by this quarterly report that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II. Other Information

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A Risk Factors" in our Form 10-K for the year ending December 31, 2011, which could materially affect our business, financial condition, and results of operations. The risks described in our Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

Item 6. Exhibits

- 31.1 Certification of Chief Executive Officer of Spherix Incorporated pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer of Spherix Incorporated pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification of Chief Executive Officer of Spherix Incorporated pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification of Chief Financial Officer of Spherix Incorporated pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101.1 XBRL Instance Document

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101.2 XBRL Taxonomy Extension Schema Document

101.3 XBRL Taxonomy Extension Calculation Linkbase Document

101.4 XBRL Taxonomy Extension Definition Linkbase Document

101.5 XBRL Taxonomy Extension Label Linkbase Document

101.6 XBRL Taxonomy Extension Presentation Linkbase Document

Signatures

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

Spherix Incorporated
(Registrant)

Date: August 13, 2012

By: /s/ Claire L. Kruger
Claire L. Kruger
Chief Executive Officer and Chief
Operating Officer

Date: August 13, 2012

By: /s/ Robert L. Clayton
Robert L. Clayton, CPA
Chief Financial Officer and Treasurer

Spherix Incorporated

**Certification of
Chief Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Claire L. Kruger, certify that:

1. I have reviewed this report on Form 10-Q of Spherix Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Claire L. Kruger

Claire L. Kruger
Chief Executive Officer and Chief
Operating Officer
August 13, 2012

Spherix Incorporated

**Certification of
Chief Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Robert L. Clayton, certify that:

1. I have reviewed this report on Form 10-Q of Spherix Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Robert L. Clayton

Robert L. Clayton
Chief Financial Officer and Treasurer
August 13, 2012

Spherix Incorporated

**Certification of
Chief Executive Officer
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

I, Claire L. Kruger, Chief Executive Officer and Chief Operating Officer, of Spherix Incorporated (the “Company”), in compliance with Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that, to the best of my knowledge, the Company’s Report on Form 10-Q for the period ended June 30, 2012 (the “Report”) filed with the Securities and Exchange Commission:

- Fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Claire L. Kruger

Claire L. Kruger
Chief Executive Officer and Chief
Operating Officer
August 13, 2012

A signed copy of this written statement required by Section 906 has been provided to Spherix Incorporated and will be retained by Spherix Incorporated and furnished to the Securities and Exchange Commission or its staff upon request.

Spherix Incorporated

**Certification of
Chief Financial Officer
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

I, Robert L. Clayton, Chief Financial Officer and Treasurer, of Spherix Incorporated (the “Company”), in compliance with Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that, to the best of my knowledge, the Company’s Report on Form 10-Q for the period ended June 30, 2012 (the “Report”) filed with the Securities and Exchange Commission:

- Fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Robert L. Clayton
Robert L. Clayton
Chief Financial Officer and Treasurer
August 13, 2012

A signed copy of this written statement required by Section 906 has been provided to Spherix Incorporated and will be retained by Spherix Incorporated and furnished to the Securities and Exchange Commission or its staff upon request.