BLUE SPHERE CORP.
Form 10-Q
February 14, 2014

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

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended December 31, 2013

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE EXCHANGE ACT

For the transition period from _________ to ________

Commission File No.**333-147716**

Bluesphere Corp.
(Exact name of registrant as specified in its charter)

Nevada	**98-0550257**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

35 Asuta Street, Even Yehuda, Israel 40500
(Address of principal executive offices) (zip code)

972-9-8917438
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes x No ¨

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

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

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

State the number of shares outstanding of each of the issuer's classes of common equity as of the latest practicable date: **As at February 13, 2014, there were 15,453,656 shares of common stock, par value $0.001 per share, outstanding.**

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Forward Looking Statements

This quarterly report contains forward-looking statements. Forward-looking statements are projections in respect of future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as "may", "should", "expects", "plans", "anticipates", "believes", "estimates", "predicts", "potential" or "co negative of these terms or other comparable terminology. These statements are only predictions and involve known and unknown risks, uncertainties and other factors, including the risks set out below, any of which may cause our or our industry's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. These risks include, without limitation, (i) uncertainties regarding our ability to obtain adequate financing on a timely basis including financing for specific projects, (ii) the financial and operating performance of any our projects, (iii) uncertainties regarding the market for and value of carbon credits and other environmental attributes, (iv) political and governmental risks associated with the countries in which we may operate, (v) unanticipated delays associated with project implementation including designing, constructing and equipping projects, as well as delays in obtaining required government permits and approvals, (vi) the development stage of our business and (vii) our lack of operating history.

This list is not an exhaustive list of the factors that may affect any of our forward-looking statements. These and other factors should be considered carefully and readers should not place undue reliance on our forward-looking statements.

Forward looking statements are made based on management's beliefs, estimates and opinions on the date the statements are made and we undertake no obligation to update forward-looking statements if these beliefs, estimates and opinions or other circumstances should change. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Except as required by applicable law, including the securities laws of the United States, we do not intend to update any of the forward-looking statements to conform these statements to actual results.

Our financial statements are stated in United States dollars (U.S. $) and are prepared in accordance with United States Generally Accepted Accounting Principles ("GAAP"). In this quarterly report, unless otherwise specified, all dollar amounts are expressed in United States dollars.

As used in this quarterly report, the terms "we", "us", "our", "Blue Sphere" or the "Company" mean Blue Sphere Corp. and wholly-owned subsidiary, Eastern Sphere, Ltd., unless the context clearly requires otherwise.

BLUE SPHERE CORP.
(A development stage company)

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2013

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BLUE SPHERE CORP.
(A development stage company)

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2013
IN U.S. DOLLARS

UNAUDITED

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BLUE SPHERE CORP.

(A development stage company)

CONDENSED CONSOLIDATED BALANCE SHEETS

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

	December 31, 2013 Unaudited		September 30, 2013 Audited	
Assets				
CURRENT ASSETS:				
Cash and cash equivalents	$	28	$	46
Other current assets		85		286
Total current assets		113		332
PROPERTY, PLANT AND EQUIPMENT, net of accumulated depreciation		2		3
PAYMENT ON ACCOUNT OF PROJECT		311		271
Total assets	$	426	$	606
Liabilities and Stockholders’ Equity (Deficit)				
CURRENT LIABILITIES:				
Current maturities of long term loan	$	26	$	12
Accounts payables		13		16
Other accounts payable		1,195		420
Debentures, notes and loans		690		587
Total current liabilities		1,924		1,035
LONG TERM BANK LOAN		111		53
STOCKHOLDERS' DEFICIT:				
Common shares of $0.001 par value each: Authorized: 1,750,000,000 shares at December 31, 2013 and September 30, 2013, Issued and outstanding: 11,298,313 shares and 9,621,210 shares at December 31, 2013 and September 30, 2013, respectively		1,088		1,086
Additional paid-in capital		27,400		26,998
Accumulated deficit during the development stage		(30,097)		(28,566)
Total Stockholders’ Equity (Deficit)		(1,609)		(482)
Total liabilities and Stockholders’ Equity (Deficit)	$	426	$	606

The accompanying notes are an integral part of the consolidated financial statements.

BLUE SPHERE CORP.

(A development stage company)
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(U.S. dollars in thousands except share and per share data)

	Three months ended December 31 2013 (Unaudited)	2012	Cumulative from July 17, 2007 through December 31, 2013 Unaudited
OPERATING EXPENSES -			
General and administrative expenses *	$ 1,494	$ 486	$ 29,856
FINANCIAL EXPENSES (INCOME), net	37	19	211
	1,531	505	30,067
Other losses	-	-	30
NET LOSS FOR THE PERIOD	$ 1,531	$ 505	$ 30,097
Net loss per common share - basic and diluted	$ (0.134)	$ (0.226)	
Weighted average number of common shares outstanding during the period - basic and diluted	11,450,784	2,243,302	

* In the three months period ended December 31, 2013 and 2012 - includes $81 thousand and $96 thousand, respectively of share-based compensation.

The accompanying notes are an integral part of the consolidated financial statements.

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BLUE SPHERE CORP.

(A development stage company)
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIT)
(U.S. dollars in thousands, except share and per share data)

	Common Stock, $0.001 Par Value Shares	Amount	Additional paid-in Capital	Accumulated deficit during the development stage	Total Stockholders' Equity (deficit)
COMMON STOCK ISSUED, JULY 17, 2007 (DATE OF INCEPTION)	16,815	$ 2	$ 67	$ -	$ 69
CHANGES DURING THE PERIOD FROM JULY 17, 2007 THROUGH SEPTEMBER 31, 2013 (audited):					
Issuance of common stock, net of issuance expenses	3,602,402	407	702	-	1,109
Share split of 35:1	571,682	65	(65)	-	-
Common stock issued as direct offering costs	17,700	2	995	-	997
Share based compensation	141,820	16	18,917	-	18,933
Exercise of Options	220,936	24	(16)	-	8
Share based compensation for services	2,168,388	244	6,254	-	6,498
Issuance of common stock in respect of issuance of convertible notes	2,881,467	326	144	-	470
Net loss for the period	-	-	-	(28,566)	(28,566)
BALANCE AT SEPTEMBER 30, 2013 (audited)	9,621,210	1,086	26,998	(28,566)	(482)
CHANGES DURING THE PERIOD OF THREE MONTHS ENDED DECEMBER 31, 2013 (unaudited):					
Share based compensation	-	-	81	-	81
Issuance of common stock, net of issuance expenses	637,658	1	128	-	129
Issuance of shares for services	88,496	-	27	-	27
Issuance of common stock in respect of issuance of	950,949	1	166	-	167

convertible notes									
Net loss for the period	-		-		-		(1,531)		(1,531)
BALANCE AT DECEMBER 31, 2013 (Unaudited)	11,298,313	$	1,088	$	27,400	$	(30,097)	$	(1,609)

The accompanying notes are an integral part of the consolidated financial statements.

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BLUE SPHERE CORP.

(A development stage company)
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(U.S. dollars in thousands)

	Three months ended December 31 2013 (Unaudited)	2012	For the period From July 17, 2007 through December 31, 2013 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit (Net loss) for the period	$ (1,531)	$ (505)	$ (30,097)
Adjustments required to reconcile net loss to net cash used in operating activities:			
Share based compensation expenses	81	96	19,014
Depreciation	1	1	6
Expenses in respect of Convertible notes and loans	28	20	146
Issuance of shares for services	48	84	6,547
Issuance of shares in respect of issuance of Convertible notes	-	-	52
Decrease (increase) in other current assets	201	(93)	100
Increase (decrease) in accounts payables	(3)	-	12
Increase (decrease) in other account payables	775	148	1,196
Net cash used in operating activities	(400)	(249)	(3,024)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payments on account of project	(40)	-	(311)
Short term investments	-	(6)	(7)
Payment for purchasing of fixed assets	-	-	(9)
Net cash used in investing activities	(40)	(6)	(327)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from options exercise	-	-	8
Proceeds on account of shares	-	176	-
Loan granted	-	-	(30)
Loans received	382	158	1,078
Loan origination fee	-	-	(178)
Loans repaid	(68)	(80)	(251)
Proceeds from issuance of convertible debenture	-	-	321
Proceeds from stock issued for cash	108	60	2,431
Net cash provided by financing activities	422	314	3,379
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(18)	59	28
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	46	22	-

CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 28	$ 81	$ 28

The accompanying notes are an integral part of the consolidated financial statement

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BLUE SPHERE CORP.
(A development stage company)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

NOTE 1 - BASIS OF PRESENTATION:

The accompanying unaudited condensed consolidated financial statements have been prepared on the same basis, as the annual consolidated financial statements and, in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary to present fairly the financial position and results of operations of Blue Sphere Corp.. ("the Company"). These consolidated financial statements and notes thereto are unaudited and should be read in conjunction with the Company's audited financial statements included in its Annual Report on Form 10-K for the year ended September 30, 2013, as filed with the Securities and Exchange Commission. The results of operations for the three months ended December 31, 2013 are not necessarily indicative of results that could be expected for the entire fiscal year.

NOTE 2 - GENERAL

The Company was incorporated in the state of Nevada on July 17, 2007 and was originally in the business of developing and promoting automotive internet sites. During the second quarter of 2010 the management of the Company decided to change its business focus to that of project integrator in the clean energy production and waste to energy markets.

The Company is currently focusing on five projects for which it has signed agreements, term sheets or memoranda to own and implement such projects and which are in various stages of development:

United States

- Charlotte, NC Waste to Energy Anaerobic Digester 5.2 MW Plant
- Johnston, RI Waste to Energy Anaerobic Digester 3.2 MW Plant
- St. Croix, U.S. Virgin Islands Organics to Energy Anaerobic Digester 7 MW Plant

Ghana

- Oti Sanitary Landfill Waste to Energy 1 MW Plant
- Accra Transfer Station Waste to Energy Anaerobic Digester 10MW Plant

On November 26, 2013, the Company amended and restated its Articles of Incorporation to authorize the issuance of 500,000,000 shares of preferred stock, $0.001 par value, in one or more series and with such rights, preferences and privileges as its Board of Directors may determine and to effect a 1 for 113 reverse stock split of the Company's outstanding common stock. In addition, the Amended and Restated Articles of Incorporation provide, among other things, for indemnification and limitations to the liability of the Company's officers and directors.

As a result of the reverse stock split, which became effective on December 4, 2013, every 113 shares of the Company's outstanding common stock prior to the effect of that amendment was combined and reclassified into one share of the Company's common stock, and the number of outstanding shares of the Company's common stock was reduced from 1,292,103,309 to 11,434,611 shares.

All share, stock option and per share information in these condensed consolidated financial statements have been restated to reflect the stock split on a retroactive basis.

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BLUE SPHERE CORP.
(A development stage company)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

NOTE 2 GENERAL (continue)

Construction Financing Agreement

On October 29, 2013, Orbit Energy Charlotte, LLC (“OEC”), Tipping, LLC (“Tipping”) and Caterpillar Financial Services Corporation (“Caterpillar”) entered into a Construction Financing Agreement (the “Construction Financing Agreement”) in respect of the 5.2MW anaerobic digester project in Charlotte, NC (the “Project”) that the Company expects to acquire from Orbit Energy, Inc., the project’s current owner.

The Construction Financing Agreement is the agreement pursuant to which Caterpillar Financial Service Corporation (“CAT”) has agreed, subject to the fulfillment of certain conditions, including, but not limited to the receipt and expenditure of the Equity Finance (as defined below), to provide up to $17,785,720 in debt financing (the “Debt Finance”) in respect of the Project.

The Debt Finance is to be divided into two phases: (i) a construction loan and (ii) a term loan. The term of the Debt Finance shall be 10 years. Interest on the construction loan component of the Debt Financing is based on LIBOR for deposits in dollars for a term of three months plus a variable-rate spread the minimum of which can be 5.32%. Interest on the term loan component of the Debt Finance will be fixed 60 days prior to the conversion of the construction loan into a term loan (based on CAT’s proprietary cost of funds). Prepayment of the construction loan is not permitted, but prepayment of the term loan is permitted subject to the payment of a fee the amount of which depends, in part, on the timing of the prepayment.

REF Bluesphere Joint Venture

On October 30, 2013, the Company had entered into an Operating Agreement (the “Operating Agreement”) with REF Investments Ltd. (“REF”) with respect to the formation of REF Bluesphere LLC (the “JV”). The JV is a company set up to own and manage OEC and Tipping through certain intermediary companies. Pursuant to the Operating Agreement, REF has, subject to the fulfillment of certain conditions, agreed to invest $6,000,000 in cash plus $1,500,000 in a letter of credit in the form of equity financing for the Project (the “Equity Finance”). In exchange for the Equity Finance, REF will receive a 50% ownership stake in the JV leaving the Company with a 50% ownership stake in the JV. Until REF receives a 20% internal rate of return after taxes (the “Minimum Return”) on its investment of the Equity Finance of the Project, REF will receive 85% of the EBITDA of the Project and the Company will receive 15%. Once REF has received the Minimum Return, the allocation of net revenue shall become 50% to REF and 50% to the Company.

BLUE SPHERE CORP.
(A development stage company)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

NOTE 3 - INTERIM FINANCIAL STATEMENTS

The accompanying unaudited interim consolidated financial statements as of December 31, 2013 and for the three months then ended, have been prepared in accordance with accounting principles generally accepted in the United States relating to the preparation of financial statements for interim periods. Accordingly, they do not include all the information and footnotes required for annual financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended December 31, 2013 are not necessarily indicative of the results that may be expected for the year ending September 30, 2014.

The September 30, 2013 Condensed Balance Sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. These financial statements should be read in conjunction with the financial statements and notes thereto contained in the Company’s Annual Report on Form 10-K for the year ended September 30, 2013.

NOTE 4 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the annual financial statements of the Company as of September 30, 2013, are applied consistently in these financial statements.

NOTE 5 - GOING CONCERN

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As of December 31, 2013, the Company had approximately $28 thousand in cash and cash equivalents, approximately $1,811 thousand in negative working capital, a stockholders’ deficit of approximately $1,609 thousand and an accumulated deficit during development stage of approximately $30,097 thousand. Management anticipates that their business will require substantial additional investments that have not yet been secured. The Company anticipates that the existing cash will not be sufficient to continue its operations through the next 12 months. Management is continuing in the process of fund raising in the private equity markets as the Company will need to finance future activities and general and administrative expenses. These conditions raise substantial doubt about the Company's ability to continue as a going concern.

These financial statements do not include any adjustments that may be necessary should the Company be unable to continue as a going concern. The Company’s continuation as a going concern is dependent on its ability to obtain additional financing as may be required and ultimately to attain profitability.

BLUE SPHERE CORP.
(A development stage company)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

NOTE 6 - NEWLY ISSUED ACCOUNTING PRONOUNCEMENTS:

No new accounting standards have been adopted since the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2013 was filed.

NOTE 7 COMMON SHARES:

On October 13, 2013 non-US investor converted $87,000 principal loan for 384,956 shares of the Company.

On October 13, 2013 non-US investor converted $37,000 principal loan for 163,717 shares of the Company.

During October 2013, holders of $47,878 of principal amount of Asher convertible notes converted their notes into 402,276 shares of the Company's common stock.

On October 8, 2013, the Company issued 88,496 shares of common stock for consulting services.

On November 5, 2013, the Company's subsidiary, Eastern Sphere, Ltd., entered into an agreement with an investor providing for the issuance of 491,642 shares of the Company's common stock in consideration for $100,000.

On November 14, 2013, the Company's subsidiary, Eastern Sphere, Ltd., entered into an agreement with an investor providing for the issuance of 146,016 shares of the Company's common stock in consideration for $29,107.

On December 4, 2013, the Company entered into an agreement with an investor that agreed to provide collateral in the amount of 353,200 Euro ($480,000) to enable the Company to receive a letter of credit in respect of the Company's North Carolina Project. In consideration for providing the collateral, the investor shall be entitled to a 4% ownership stake in the North Carolina project companies and was issued after the balance sheet date, 44,248 shares of the Company's common stock. Mr. Shlomi Palas personally guaranteed the Company's obligations under the agreement with the investor. In addition, in accordance with the agreement, the Company issued to the investor a convertible note in the principal amount of 353,200 Euro bearing interest at 1% per month, payable on a monthly basis. The convertible note matures on March 4, 2014 and any unpaid principal or interest after maturity shall bear interest at the rate of 20% per annum. On or after March 4, 2014, any outstanding and unpaid principal under the convertible note is convertible into the Company's shares of common stock based on the then applicable market price of the Company's shares.

On December 13, 2013 the Board of Directors of the Company approved the issuance of 424,779 shares of the Company to its Chief Executive officer, 353,983 shares to the Chairman of the Board, 353,983 shares to the Executive Vice-President and 283,186 shares to the Chief Carbon Officer and general counsel of the Company. Such shares were issued at January 9, 2014.

BLUE SPHERE CORP.

(A development stage company)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

NOTE 7 COMMON SHARES (continue):

On December 15, 2013, the Company agreed to issue 600,000 shares of common stock to a consultant providing investor relation services. The shares are to be issued in three tranches of 200,000 each, the first within 10 days of entering into the agreement, the second on the four month anniversary of the agreement and the final on the eight month anniversary of the agreement. The first tranche of 200,000 shares was issued on January 9, 2014.

Reverse stock split

On November 26, 2013, the Company amended and restated its Articles of Incorporation to authorize the issuance of 500,000,000 shares of preferred stock, $0.001 par value, in one or more series and with such rights, preferences and privileges as its Board of Directors may determine and to effect a 1 for 113 reverse stock split of the Company's outstanding common stock. In addition, the Amended and Restated Articles of Incorporation provide, among other things, for indemnification and limitations to the liability of the Company's officers and directors.

As a result of the reverse stock split, which became effective on December 4, 2013, every 113 shares of the Company's outstanding common stock prior to the effect of that amendment was combined and reclassified into one share of the Company's common stock, and the number of outstanding shares of the Company's common stock was reduced from 1,292,103,309 to 11,434,611 shares.

All share, stock option and per share information in these consolidated financial statements have been restated to reflect the stock split on a retroactive basis.

BLUE SPHERE CORP.

(A development stage company)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

NOTE 8 DEBENTURES AND NOTES:

Asher Notes

On March 20, 2013, the Company signed a securities purchase agreement with Asher Enterprises Inc., a Delaware corporation with a head office in New York ("Asher"), pursuant to which Asher purchased an aggregate amount of U.S. $47,500 of the Company's 8% convertible notes. The notes are convertible into shares of common stock of the Company from time to time, and at any time, beginning September 19, 2013 and ending, absent any condition of default, on December 26, 2013, subject to the limitations and conditions set forth in the notes. The Company has the right to prepay the notes under the certain conditions for 180 days following the issue date. On October 7, 2013 the Company repaid $18,248 principal amount of such notes and the remaining $29,252 principal amount of the notes was converted into 250,580 shares of the Company's common stock.

On May 9, 2013, Asher purchased an additional $42,500 of the Company's 8% convertible notes. On November 15, 2013 the Company repaid $29,630 principal amount of such notes and the remaining $12,870 principal amount of the notes was converted into 151,696 shares of the Company's common stock.

On September 3, 2013, Asher purchased an additional $42,500 of the Company's 8% convertible notes.

On October 24, 2014 Asher purchased an additional $32,500 of the Company's 8% convertible notes.

Other Notes

On November 5, 2013, the Company entered into agreements with three investors each providing for a bridge loan of $50,000 of which $25,000 is payable under certain conditions within 30 days of the agreement and a further $27,500 is payable on the 180th day of the date of the agreement. $25,000 of the loan amount is convertible into shares of the Company's common stock at $0.1695 per share. As part of each agreement, the Company agreed to issue 66,371 shares of its common stock to each investor and further agreed to register 294,985 shares of common stock in the name of each investor. Mr. Shlomi Palas personally guaranteed the obligations of the company under each agreement.

In addition, on November 5, 2013, the Company entered into an agreement with an investor providing for a bridge loan of $20,000 of which $10,000 is payable under certain conditions within 30 days of the agreement and a further $11,000 is payable on the 180th day of the date of the agreement. $10,000 of the loan amount is convertible into shares of the Company's common stock at $0.1695 per share. As part of each agreement, the Company agreed to issue 26,548 shares of its common stock to the investor and further agreed to register 117,994 shares of common stock in the name of the investor. Mr. Shlomi Palas personally guaranteed the obligations of the company under each agreement.

NOTE 9 SUBSEQUENT EVENTS:

On January 9, 2014, the Company issued 265,486 shares of common stock for consulting services.

On January 9, 2014, the Company issued 345,132 shares of common stock for consulting services.

On January 9, 2014, the Company issued 17,700 shares of common stock for consulting services.

On January 26, 2014, the Company signed a subscription agreement with the non-US investor pursuant to which such investor agreed to invest an aggregate of $400,000 into the Company for the sale of 1,739,130 shares of common stock.

On February 7, 2014, the Company issued an aggregate of 1,200,000 shares of our common stock to CTW Changing the World Technologies, Ltd. ("CTW") in exchange for (i) an investment of $77,000 (for which CTW received 385,000 shares of common stock) and (ii) the provision of financial engineering services (for which CTW received 815,000 shares of common stock).

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

OVERVIEW

OVERVIEW

Summary of Current Operations

We are a project integrator in the clean energy production and organics to energy markets. We aspire to become a key player in these global markets, working with enterprises with clean energy, organics to energy and related by-product potential to generate clean energy, soil amendments, compost and other by-products. We believe that these markets have tremendous potential insofar as there is a virtually endless supply of waste and organic material that can be used to generate power and valuable by-products. Not only is there a virtually endless supply of waste and organic material, but in most, if not all cases, disposing of such waste and material in most parts of the world today is a costly problem with an environmentally-damaging solution, such as landfilling. We seek to offer a cost-effective, environmentally-safe alternative.

We are currently focusing on four projects for which we have signed agreements, term sheets or memoranda to own and implement such projects and which are in various stages of development:

United States

- Charlotte, NC Waste to Energy Anaerobic Digester 5.2 MW Plant
- Johnston, RI Waste to Energy Anaerobic Digester 3.2 MW Plant

Ghana

- Oti Sanitary Landfill Waste to Energy 1 MW Plant
- Accra Transfer Station Waste to Energy Anaerobic Digester 10MW Plant

Reverse Split

On December 4, 2013, we effected a 1 for 113 reverse stock split as a result of which every 113 shares of our outstanding common stock prior to the effect of the split was combined and reclassified into one share of our common stock, and the number of outstanding shares of our common stock was reduced from 1,292,103,309 to 11,434,611 shares.

Results of Operations

Revenue

We have recorded no revenue since inception.

General and administrative expenses

General and administrative expenses for the three-month period ended December 31, 2013 were $1,494,000 as compared to $486,000 for the three-month period ended December 31, 2012. The increase is mainly attributable to the increase in share-based compensation for employees and service providers and our continues investment and development expenses incurred in connection with our North Carolina and Rhode Island projects.

Net Loss

As a result of the above, we incurred a net loss of $1,531,000 for the three-month period ended December 31, 2013, as compared to a net loss of $505,000 for the three-month period ended December 31, 2012. We anticipate losses in future periods. The increase is mainly attributable to the increase in share-based compensation for employees and service providers and our continuous investment and development expenses incurred in connection with our North Carolina and Rhode Island projects.

Inflation

Our results of operations have not been materially affected by inflation and management does not expect that inflation risk would cause material impact on its operations in the future.

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Seasonality

Our results of operations are not materially affected by seasonality and we do not expect seasonality to cause any material impact on our operations in the near future.

Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires our management to make assumptions, estimates and judgments that affect the amounts reported in the financial statements, including the notes thereto, and related disclosures of commitments and contingencies, if any. We consider our critical accounting policies to be those that require the more significant judgments and estimates in the preparation of financial statements. No new accounting standards have been adopted since the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2013 was filed.

Liquidity

Liquidity is the ability of a company to generate funds to support its current and future operations, satisfy its obligations, and otherwise operate on an ongoing basis. Significant factors in the management of liquidity are funds generated by operations, levels of accounts receivable and accounts payable and capital expenditures.

As of December 31, 2013, we had cash of $28,000 compared to $46,000 as of September 30, 2013. As of December 31, 2013, we had working capital deficit of $1,811,000 compared to $703,000 as of September 30, 2013.

Net cash used in operating activities was $400,000 for the three months ended December 31, 2013, compared to $249,000 for the prior period December 31, 2012. The increase of $151,000 in cash used in operating activities was primarily due to development expenses incurred in connection with our North Carolina and Rhode Island projects. Currently operating costs exceed revenue. We have not generated any revenue to-date.

Net cash flows used in investing activities was $40,000 for the three months ended December 31, 2013 as compared to none for the prior period December 31, 2012. The net increase in cash used in investing activities was due to payments made for our operations in our US projects as detailed above.

Net cash flows provided by financing activities was $422,000 for the three months ended December 31, 2013 as compared to $314,000 for the prior period December 31, 2012. The increase in cash provided by financing activities was due to an increase in equity financing and loans received from third-parties. To date we have principally financed our operations through the sale of our common stock and the issuance of debt.

The opinion of our independent registered public accounting firm on our audited financial statements as of and for the year ended September 30, 2013 contains an explanatory paragraph regarding substantial doubt about our ability to continue as a going concern. Our ability to continue as a going concern is dependent upon raising capital from financing transactions and future sales.

Management anticipates that existing cash resources, including the proceeds of the equity placements subsequent to December 31, 2013 described below will not be sufficient to fund our planned operations during the next 12 months. We estimate that, in order to fund our continued existence, we will require $1,000,000 in cash over the next 12 months. This does not include amounts we will have to invest in the implementation of our projects. Assuming we finance each project with 25% equity and 75% debt, we will require approximately $12,000,000 in additional capital to make equity investments in each of our projects. There is no assurance that we will be successful in financing our projects with 25% equity and 75% debt (such amounts could be more or less) and, even if successful, there is no assurance that we will raise such capital at all or in a timely manner.

In addition to requiring capital to fund our corporate activities, the capital needs of our project development activities will be significant and will likely require equity investment on our part. As a result, we are seeking to raise additional funds and any meaningful equity financing will likely result in significant dilution to our existing shareholders. There can be no assurance that additional funds will be available on terms acceptable to us, or at all.

Off-Balance Sheet Arrangements

As at December 31, 2013, we had no off-balance sheet arrangements of any nature.

Market Risk and Contingent Liabilities

We are seeking to operate in the developing world (i.e. Ghana), making us susceptible to changes in the economic, political, and social conditions therein. The developing world has experienced political, economic and social uncertainty in recent years, including an economic crisis characterized by increased inflation, high domestic interest rates, in some cases, negative economic growth, reduced consumer purchasing power and high unemployment. Currently, many of the countries in the developing world have been pursuing economic stabilization policies, including the encouragement of foreign trade and investment and other reforms. In the last year, there was an overall improvement in the world (and, consequently, developing world) economic environment. Nevertheless, no assurance can be given that the countries in which we currently or will operate will continue to pursue these policies, that these policies will be successful if pursued or that these policies will not be significantly altered. In case of a decline in the world economy, political or social problems or a reversal of foreign investment policies, it is likely that any such change will have an adverse effect on our results of operations and financial condition. Additionally, inflation may lead to higher wages and salaries for local employees and increases in the cost of materials, which would adversely affect the Company's profitability.

Risks inherent in foreign operations include nationalization, war, terrorism, and other political risks and risks of increases in foreign taxes or changes in U.S. tax treatment of foreign taxes paid and the imposition of foreign government royalties and fees.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not Applicable.

ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

Our management is responsible for establishing and maintaining a system of disclosure controls and procedures (as defined in Rule 13a-15(e)) under the Exchange Act) that is designed to ensure that information required to be disclosed by the Company in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time specified in the Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including its principal executive officer or officers and principal financial officer or officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Pursuant to Rule 13a-15(b) under the Exchange Act, the Company carried out an evaluation with the participation of the Company's management, including the Company's Chief Executive Officer ("CEO") and the Company's Chief Financial Officer ("CFO"), of the effectiveness of the Company's disclosure controls and procedures (as defined under Rule 13a-15(e) under the Exchange Act) as of the quarter ended September 30, 2013. Based upon that evaluation, the Company's CEO and CFO concluded that the Company's disclosure controls and procedures were not effective as of December 31, 2013 due to the Company’s limited internal resources and lack of ability to have multiple levels of transaction review.

Management is in the process of determining how best to change our current system and implement a more effective system to insure that information required to be disclosed in this quarterly report on Form 10-Q has been recorded, processed, summarized and reported accurately. Our management acknowledges the existence of this issue, and intends to developed procedures to address them to the extent possible given limitations in financial and manpower resources. While management is working on a plan, no assurance can be made at this point that the implementation of such controls and procedures will be completed in a timely manner or that they will be adequate once implemented.

Changes in Internal Controls

Our management, with the participation our CEO and CFO, performed an evaluation to determine whether any change in our internal controls over financial reporting occurred during the three month period ended December 31, 2013. Based on that evaluation, our CEO and our CFO concluded that no change occurred in the Company's internal controls over financial reporting during the quarter ended December 31, 2013, that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 1A. RISK FACTORS

As a smaller reporting company, we are not required to provide the information required by this item.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. REMOVED AND RESERVED

ITEM 5. OTHER INFORMATION

On February 7, 2014, we issued an aggregate of 1,200,000 shares of our common stock to CTW Changing the World Technologies, Ltd. ("CTW") in exchange for (i) an investment of $77,000 (for which CTW received 385,000 shares of common stock) and (ii) the provision of financial engineering services (for which CTW received 815,000 shares of common stock). The securities above were offered and sold pursuant to an exemption from the registration requirements under Section 4(2) of the Securities Act since, among other things, the transactions did not involve a public offering.

ITEM 6.

No.	Description
31.1	Rule 13a-14(a)/15d-14(a) Certifications (ii) Rule 13a-14/15d-14 Certification Chief Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certifications (ii) Rule 13a-14/15d-14 Certification Chief Financial Officer
32.1	Section 1350 Certification Chief Executive Officer
32.2	Section 1350 Certification Chief Financial Officer

SIGNATURES

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

BLUE SPHERE CORP.

By:	/s/Shlomi Palas President, Chief Executive Officer, Secretary and Director (Principal Executive Officer) Date: February 13, 2014
By:	/s/ Shlomo Zaki Chief Financial Officer and Treasurer (Principal Accounting Officer and Principal Financial Officer) Date: February 13, 2014

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