BLUE SPHERE CORP.
Form 10-Q
February 18, 2015

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, 2014

¨ 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 18, 2015, there were 51,125,038 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 “con 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 Bluesphere Corporation a its wholly-owned subsidiary, Eastern Sphere, Ltd., unless the context clearly requires otherwise.

BLUE SPHERE CORP.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2014

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BLUE SPHERE CORP.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2014

IN U.S. DOLLARS

UNAUDITED

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BLUE SPHERE CORP.

CONDENSED CONSOLIDATED BALANCE SHEETS

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

	December 31, 2014 Unaudited	September 30, 2014 Audited
Assets		
CURRENT ASSETS:		
Cash and cash equivalents	$ 118	$ 298
Other current assets	286	265
Total current assets	404	563
PROPERTY, PLANT AND EQUIPMENT, net of accumulated depreciation	35	-
INVESTMENT IN NONCONSOLIDATED SUBSIDIARY	5	-
PAYMENT ON ACCOUNT OF PROJECT	469	469
Total assets	$ 913	$ 1,032
Liabilities and Stockholders' Equity (Deficit)		
CURRENT LIABILITIES:		
Current maturities of long term loan	$ 30	$ 32
Accounts payables	7	12
Other accounts payable	341	343
Debentures, notes and loans	856	231
Total current liabilities	1,234	618
LONG TERM BANK LOAN	126	104
STOCKHOLDERS' DEFICIT:		
Common shares of $0.001 par value each:		
Authorized: 1,750,000,000 shares at December 31, 2014 and September 30, 2014, Issued and outstanding: 51,125,044 shares and 50,109,036 shares at December 31, 2014 and September 30, 2014, respectively	1,127	1,126
Proceeds on account of shares	20	20
Additional paid-in capital	35,662	35,106
Accumulated deficit during the development stage	(37,256)	(35,942)
Total Stockholders' Equity (Deficit)	(447)	310
Total liabilities and Stockholders' Equity (Deficit)	$ 913	$ 1,032

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

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BLUE SPHERE CORP.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Three months ended December 31	
	2014	2013
	(Unaudited)	
OPERATING EXPENSES -		
General and administrative expenses	$ 827	$ 1,494
FINANCIAL EXPENSES, net	468	37
	1,295	1,531
Equity in losses on nonconsolidated subsidiary	19	-
NET LOSS FOR THE PERIOD	$ 1,314	$ 1,531
Net loss per common share - basic and diluted	$ (0.026)	$ (0.134)
Weighted average number of common shares outstanding during the period - basic and diluted	51,031,823	11,450,784

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

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BLUE SPHERE CORP.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIT)

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

	Common Stock, $0.001 Par Value		Proceeds on account of	Additional paid-in	Accumulated	Total Stockholders'
	Shares	Amount	shares	Capital	deficit	Equity (deficit)
BALANCE AT SEPTEMBER 30, 2014 (audited)	50,109,036	$ 1,126	$ 20	$ 35,106	$ (35,942)	$ 310
CHANGES DURING THE PERIOD OF THREE MONTHS ENDED DECEMBER 31, 2014 (unaudited):						
Share based compensation				97		97
Issuance of shares for services	544,041	1		93		94
Issuance of common stock in respect of issuance of convertible notes	471,967	-		44		44
Issuance of convertible debentures containing a beneficial conversion feature				322		322
Net loss for the period					(1,314)	1,314))
BALANCE AT DECEMBER 31, 2014 (Unaudited)	51,125,044	$ 1,127	$ 20	$ 35,662	$ (37,256)	$ (447)

	Common Stock, $0.001 Par Value		Proceeds on account of	Additional paid-in	Accumulated	Total Stockholders'
	Shares	Amount	shares	Capital	deficit	Equity (deficit)
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
	950,949	1		166	-	167

Issuance of common stock in respect of issuance of 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.

BLUE SPHERE CORP.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(U.S. dollars in thousands)

	Three months ended December 31	
	2014	2013
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss for the period	$(1,314)	$(1,531)
Adjustments required to reconcile net loss to net cash used in operating activities:		
Share based compensation expenses	97	81
Depreciation	1	1
Equity in losses on nonconsolidated subsidiary	19	-
Expenses in respect of Convertible notes and loans	422	28
Issuance of shares for services	94	48
Decrease (increase) in other current assets	(21)	201
Decrease in accounts payables	(5)	(3)
Increase (decrease) in other account payables	(3)	775
Net cash used in operating activities	(710)	(400)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments on account of project	-	(40)
Investment in nonconsolidated subsidiary	(24)	-
Payment for purchasing of fixed assets	(36)	-
Net cash used in investing activities	(60)	(40)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Loans received	37	382
Loans repaid	(7)	(68)
Proceeds from stock issued for cash	-	108
Proceeds from issuance of convertible debenture	560	-
Net cash provided by financing activities	590	422
DECREASE IN CASH AND CASH EQUIVALENTS	(180)	(18)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	298	46
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$118	$28

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

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BLUE SPHERE CORP.

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, 2014, as filed with the Securities and Exchange Commission. The results of operations for the three months ended December 31, 2014 are not necessarily indicative of results that could be expected for the entire fiscal year.

NOTE 2 - GENERAL

Blue Sphere Corp. (the “Company”) together with its wholly owned subsidiaries, Eastern Sphere Ltd. (“Eastern”), Binosphere Inc ("Binosphere"), Charlottesphere LLC ("Charlotteshpere”), Johnstonsphere LLC (“Johnstonsphere”), Orbit Energy Charlotte, LLC (“OEC”), Orbit Energy Rhode Island, LLC (“OERI”), Sustainable Energy Ltd. (“SEL”) and Tipping LLC (“Tipping”) is focused on project integration in the clean energy production and waste to energy markets.

As at September 30, 2014, Tipping, Johnstonsphere and Charlottesphere had not commenced their respective operations.

On October 2, 2014 the Company together with third parties established Clean Energy Ltd (Clean Energy) in Israel. Clean Energy is focused on project integration in the clean energy production and waste to energy markets mainly in Israel. The Company holds 50% in Clean Energy.

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 (i) 13 projects in the United States, Italy, Israel and Ghana, for which it has either signed agreements, letters of intent, or memoranda of understanding to own and implement such projects and which are in various stages of development and (ii) a recently licensed fast charging battery technology (as detailed below).

Payment on account of project

On October 19, 2012, the Company signed definitive project agreements in respect of both the North Carolina and Rhode Island sites with Orbit Energy, Inc. ("Orbit") pursuant to which the Company would be entitled to full ownership of each of the entities that owns the rights to implement the respective projects (Orbit Energy Charlotte, LLC in the case of the North Carolina project ("OEC") and Orbit Energy Rhode Island, LLC in the case of the Rhode Island project ("OERI") subject to the satisfaction of certain conditions.

BLUE SPHERE CORP.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

NOTE 2 – GENERAL (continue)

On November 19, 2014, the Company signed an amended and restated purchase agreement with Orbit for the North Carolina project (the “Amended OEC Purchase Agreement”). Subject to the terms of the Amended OEC Purchase Agreement, Orbit transferred ownership of OEC to us in exchange for a development fee of $900,000, reimbursement of $17,764 and an amount equal to 30% of the distributable cash flow from the North Carolina project after the project achieves a post-recoupment 30% internal rate of return computed on the basis of any and all benefits from tax credits, depreciation and other incentives of any nature (the “Participation”). The Company also agreed to use high solid anaerobic digester units designed by Orbit (the “HSAD”) and to retain Orbit to implement and operate the digester units for an annual management fee of $187,500 (the “Management Fee”) subject to certain conditions. The Amended OEC Purchase Agreement provided that the Company had until December 15, 2014 to pay Orbit the development fee and reimbursement amount, which was extended to January 15, 2014 upon payment of $75,000. If the Company did not pay the development fee and reimbursement amount by January 15, 2014, then ownership of the OEC will automatically revert back to Orbit.

On January 7, 2015, the Company signed an amended and restated purchase agreement for the Rhode Island project (the “Amended OERI Purchase Agreement”). Subject to the terms of the Amended OERI Purchase Agreement, Orbit transferred full ownership of OERI to us in exchange for a development fee of $300,000, reimbursement of $86,432 and an amount equal to 30% of the distributable cash flow from the Rhode Island project after the project achieves a post-recoupment 30% internal rate of return computed on the basis of any and all benefits from tax credits, depreciation and other incentives of any nature. The Company also agreed to use high solid anaerobic digester units designed by Orbit and to retain Orbit to implement and operate the digester units for an annual management fee of $187,500 subject to certain conditions. The Amended OERI Purchase Agreement provides that the Company have until January 22, 2015 to pay Orbit the development fee and reimbursement amount, which may be extended to February 28, 2015 upon payment of $31,000. If the Company do not pay the development fee and reimbursement amount by January 22, 2015, or February 28, 2015 if extended, then ownership of OERI will automatically revert back to Orbit.

Payments on account of land permits related to this projects on the amount of $469 thousand are presented as long term assets in the balance sheet as of September 30, 2014.

BLUE SPHERE CORP.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

NOTE 3 - INTERIM FINANCIAL STATEMENTS

The accompanying unaudited interim consolidated financial statements as of December 31, 2014 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, 2014 are not necessarily indicative of the results that may be expected for the year ending September 30, 2015.

The September 30, 2014 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, 2014.

NOTE 4 – SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the annual financial statements of the Company as of September 30, 2014, 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, 2014, the Company had approximately $118 thousand in cash and cash equivalents, approximately $830 thousand in negative working capital, a stockholders' deficit of approximately $447 thousand and an accumulated deficit of approximately $37,256 thousand. Management anticipates 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.

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, 2014 was filed.

NOTE 7 – COMMON SHARES:

On October 28, 2014 the Company issued 335,000 shares of the Company's common stock, in connection with the May 1, 2014 service agreement.

During October, 2014, Asher converted $42,500 principal amount out of the April 11, 2014 notes for 471,967 shares of the Company's common stock.

On December 8, 2014 the Company issued 209,041 shares of the Company's common stock to Carter Terry, in connection with the issuance of as detailed in note 8 below.

On October 3, 2014 the Company signed a consulting agreement with a non-US citizen according to which the consultant would provide investor relation and public relations services for a period of one year. The Company agreed to grant the consultant 2,000,000 shares of the Company and additional 500,000 options to purchase company's shares at an exercise price of $0.001 per shares.

NOTE 8 – DEBENTURES AND NOTES:

<u>Other Notes</u>

Between August 4, 2014 and September 22, 2014, the Company issued convertible promissory notes (the “Notes”) to accredited investors in an aggregate principal amount of $1,207,750 for an aggregate purchase price of $1,040,919, net of expenses incurred in connection of such notes.

Between October 28, 2014 and December 24, 2014 the Company issued convertible promissory notes (the “Notes”) to accredited investors in an aggregate principal amount of $504,250 for an aggregate purchase price of $464,970, net of expenses incurred in connection of such notes.

The Notes generally mature one-year from the date of issuance and accrue interest at rates ranging from 5% to 18% per annum and in an event of default, the Notes bear interest at rates ranging from 12% to 24% per annum. The Notes may generally be converted into shares of the Company’s common stock at conversion prices ranging from 37% to 45% discounts to lowest trade or closing prices during periods in proximity to the time of conversion subject to further discounts in the case of certain events of default.

In accordance with ASC 470-20, the company allocated a portion of the proceeds equal to the intrinsic value of beneficial conversion feature embedded in the debentures in the amounts of $1,040,919 and $321,990 as of September 30, 2014 and December 31, 2014 respectively, to additional paid-in capital, and recorded a corresponding discount on such debentures. During the three month ended December 31, 2014 the company recorded amortization expenses in the amount of $390,726, in respect of the above discount.

BLUE SPHERE CORP.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

NOTE 8 – DEBENTURES AND NOTES (continue):

The Notes include customary default provisions related to payment of principal and interest and bankruptcy or creditor assignment. In addition, it shall constitute an event of default under certain of the Notes if the Company is delinquent in its filings with the Securities and Exchange Commission, ceases to be quoted on the OTCQB, its common stock is not DWAC eligible or if it has to restate its financial statements in any material respect. In the event of an event of default the Notes may become immediately due and payable at premiums to the outstanding principal. The Notes also provide that if shares issuable upon conversion of the Notes are not timely delivered in accordance with the terms of the Notes then the Company shall be subject to certain cash or share penalties that increase proportionally to the duration of the delinquency up to certain maximums.

The Company paid aggregate commissions of $7,500 to MD Global Partners, LLC and $46,000 to Carter Terry & Company (“Carter Terry”), registered broker-dealers, in connection with the issuance of some of Notes in the aggregate principal of up to $480,000. In addition, Carter Terry is entitled to receive 100,000 shares of the Company’s common stock and a further amount of shares of our common stock equal to 4% of capital raised by them divided by the closing price of our common stock on the date of close. On December 8, 2014 the Company issued 209,041 shares of the Company’s common stock, see note 9 below.

Additional covenants, representations, and warranties between the parties are included in the Notes and accompanying Securities Purchase Agreements that were entered into.

BLUE SPHERE CORP.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

NOTE 9 – SUBSEQUENT EVENTS:

On October 19, 2012, the Company signed definitive project agreements in respect of both the North Carolina and Rhode Island sites with Orbit Energy, Inc. (“Orbit”) pursuant to which the Company would be entitled to full ownership of each of the entities that owns the rights to implement the respective projects (Orbit Energy Charlotte, LLC in the case of the North Carolina project (“OEC”) and Orbit Energy Rhode Island, LLC in the case of the Rhode Island project (“OERI”) subject to the satisfaction of certain conditions.

On December 4, 2013, the Company signed purchase orders and made down-payments for a biosqueeze system for the pre-treatment of organic solid waste for the North Carolina project and a heat exchanger for the pre-heating of the organic feedstock entering into the anaerobic digester to ensure a constant temperature for the Rhode Island project. The Company continued work on this equipment until March 2014 when the Company was forced to suspend work due to lack of funding.

On November 19, 2014, the Company signed an amended and restated purchase agreement with Orbit for the North Carolina project (the “Amended OEC Purchase Agreement”). Subject to the terms of the Amended OEC Purchase Agreement, Orbit transferred ownership of OEC to the Company in exchange for a development fee of $900,000, reimbursement of $17,764 and an amount equal to 30% of the distributable cash flow from the North Carolina project after the project achieves a post-recoupment 30% internal rate of return computed on the basis of any and all benefits from tax credits, depreciation and other incentives of any nature (the “Participation”). The Company also agreed to use high solid anaerobic digester units designed by Orbit (the “HSAD”) and to retain Orbit to implement and operate the digester units for an annual management fee of $187,500 (the “Management Fee”) subject to certain conditions. The Amended OEC Purchase Agreement provided that we had until December 15, 2014 to pay Orbit the development fee and reimbursement amount, which was extended to January 15, 2014 upon payment of $75,000. If the Company did not pay the development fee and reimbursement amount by January 15, 2014, then ownership of the OEC will automatically revert back to Orbit.

On January 15, 2015, ownership of OEC reverted back to Orbit.

On January 30, 2015, the Company entered into and signed the (i) Orbit Energy Charlotte, LLC Membership Interest Purchase Agreement by and among Orbit, Concord Energy Partners, LLC, a Delaware limited liability company ("Buyer") and Project LLC (the "New OEC Purchase Agreement") pursuant to which Buyer purchased all of Orbit's right, title and interest in and to the membership interests of Project LLC (the "Interests"), (ii) Orbit abandoned all economic and ownership interest in the Interests in favor of Buyer, (iii) Orbit ceased to be a member of Project LLC and (iv) admitted Buyer as the sole member of Project LLC.

Subject to the satisfaction of certain conditions precedent by Orbit, the Company further agreed to be responsible for all costs of evaluating and incorporating Orbit's high solids anaerobic digestion technology consisting of a proprietary process that uses an anaerobic digester design developed by the U.S. Department of Energy and subsequently modified by Orbit in combination with the proprietary bacteria to be supplied by Orbit (the "Technology") and two high solids anaerobic digester units designed by Orbit in the Charlotte, North Carolina project up to a total maximum capacity of 100 tons per day, including both direct and indirect costs, all payments to be made to Orbit and all increased costs, expenses and any damages incurred in connection with the design, installation, integration, operation and maintenance of the Technology incorporated into the project.

The Company further agreed in a letter agreement dated January 29, 2015 to pay Orbit an amount equal to thirty percent (30%) of the Project's distributable cash flow after BSC and the party(ies) making an equity investment in the Project fully recoup their respective investment in the Project (such investment(s) to be calculated solely as amounts expended in and for the construction of the Project) and the Project achieves a thirty (30%) percent internal rate of return, which, for the avoidance of doubt, will take into account and be computed on the basis of any and all benefits from tax credits, depreciation and other incentives of any nature and an annual management fee of $187,500. We also agreed to enter into an operations agreement with Orbit in respect of the HSAD Units to be integrated into the Project.

The Company also entered into and signed the Development and Indemnification Agreement with Concord Energy Partners LLC and York Renewable Energy Partners LLC and the Amended and Restated Limited Liability Agreement of Concord Energy Partners LLC with York Renewable Energy Partners LLC pursuant to which the Company received $1,250,000 in cash and will receive $587,500 upon achieving mechanical completion and $587,5000 upon achieving commercial operation of our Charlotte, NC biogas project.

In parallel with this, the Company terminated our amended and restated construction finance agreement dated June 6, 2014 with Caterpillar Financial Services Corporation.

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

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 (i) thirteen projects for which we have signed either agreements, letters of intent or memoranda of understanding to own and implement such projects and which are in various stages of development and (ii) a recently acquired fast charging battery technology.

Projects

United States

- Charlotte, NC Waste to Energy Anaerobic Digester
- Johnston, RI Waste to Energy Anaerobic Digester
- Middleborough, MA Waste to Energy Anaerobic Digester

Italy

- Soc. agr. AGRICERERE srl – Tromello (Pavia)

- Soc. agr. AGRIELEKTRA srl – Alagna (Pavia)
- Soc. agr. AGRISORSE srl - Garlasco (Pavia)
- Soc. agr. GEFA srl – Dorno (Pavia)
- Soc. agr. SAMMARTEIN srl – San Martino in Rio (Reggio Emilia)
- Soc. agr. ER srl – Aprilia (Latina)
- Soc. agr. BIOENERGIE SRL – Aprilia (Latina)

Israel

- Ramat Chovav Waste to Energy Anaerobic Digester

Ghana

- Oti Sanitary Landfill Waste to Energy
- Accra Transfer Station Waste to Energy Anaerobic Digester

Results of Operations

Revenue

As at December 31, 2014, we had recorded no revenue since inception.

General and administrative expenses

General and administrative expenses for the three-month period ended December 31, 2014 were $827,000 as compared to $1,494,000 for the three-month period ended December 31, 2013. The decrease is mainly attributable to the decrease in share-based compensation for employees and service providers somewhat offset by our continuous 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 $1,313,000 for the three-month period ended December 31, 2014, as compared to a net loss of $1,531,000 for the three-month period ended December 31, 2013. We anticipate losses in future periods. The decrease is mainly attributable to the decrease in share-based compensation for employees and service providers somewhat offset by our continuous investment and development expenses incurred in connection with our North Carolina and Rhode Island projects and the increase in financial expenses mainly attributed to the amortization expenses in respect of the beneficial conversion feature embedded in debentures issued by the Company.

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.

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 at December 31, 2014, we had cash of $118,000 compared to $298,000 as of December 31, 2013. As at December 31, 2014, we had a working capital deficit of $830,000 compared to $55,000 as of December 31, 2013.

Net cash used in operating activities was $710,000 for the three months ended December 31, 2014, compared to $400,000 for the same period in 2013. Currently operating costs exceed revenue.

Net cash flows used in investing activities was $60,000for the three months ended December 31, 2014 as compared to $40,000 for the same period in 2013. The net increase in cash used in investing activities was due to payments made during the three months ended December 31, 2014 for the purchase of fixed assets as well as investment in nonconsolidated subsidiary.

Net cash flows provided by financing activities was $590,000 for the three months ended December 31, 2014 as compared to $422,000 for the same period in 2013. 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, 2014 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 September 30, 2014 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 $20,000,000 in additional capital to make equity investments in US, Italian and Israeli projects. We are unable to estimate the amount we will be required to invest in our Ghanaian 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, 2014, 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 nine-months ended June 30, 2014. Based upon that evaluation, the Company's CEO and CFO concluded that the Company's disclosure controls and procedures were not effective as of June 30, 2014 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 nine-month 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, 2014. 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, 2014, 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.

[insert details about convertible notes from January 2015]

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. REMOVED AND RESERVED

ITEM 5. OTHER INFORMATION

<u>Subsequent Events Disclosure</u>

On October 19, 2012, we signed definitive project agreements in respect of both the North Carolina and Rhode Island sites with Orbit Energy, Inc. ("Orbit") pursuant to which we would be entitled to full ownership of each of the entities that owns the rights to implement the respective projects (Orbit Energy Charlotte, LLC in the case of the North Carolina project ("OEC") and Orbit Energy Rhode Island, LLC in the case of the Rhode Island project ("OERI") subject to the satisfaction of certain conditions.

On December 4, 2013, we signed purchase orders and made down-payments for a biosqueeze system for the pre-treatment of organic solid waste for the North Carolina project and a heat exchanger for the pre-heating of the organic feedstock entering into the anaerobic digester to ensure a constant temperature for the Rhode Island project. We continued work on this equipment until March 2014 when we were forced to suspend work due to lack of funding.

On November 19, 2014, we signed an amended and restated purchase agreement with Orbit for the North Carolina project (the "Amended OEC Purchase Agreement"). Subject to the terms of the Amended OEC Purchase Agreement, Orbit transferred ownership of OEC to us in exchange for a development fee of $900,000, reimbursement of $17,764 and an amount equal to 30% of the distributable cash flow from the North Carolina project after the project achieves a post-recoupment 30% internal rate of return computed on the basis of any and all benefits from tax credits, depreciation and other incentives of any nature (the "Participation"). We also agreed to use high solid anaerobic digester units designed by Orbit (the "HSAD") and to retain Orbit to implement and operate the digester units for an annual management fee of $187,500 (the "Management Fee") subject to certain conditions. The Amended OEC Purchase Agreement provided that we had until December 15, 2014 to pay Orbit the development fee and reimbursement amount, which was extended to January 15, 2014 upon payment of $75,000. If we did not pay the development fee and reimbursement amount by January 15, 2014, then ownership of the OEC will automatically revert back to Orbit.

On January 15, 2015, ownership of OEC reverted back to Orbit.

On January 30, 2015, we entered into and signed the (i) Orbit Energy Charlotte, LLC Membership Interest Purchase Agreement by and among Seller, Concord Energy Partners, LLC, a Delaware limited liability company ("Buyer") and Project LLC (the "New OEC Purchase Agreement") pursuant to which Buyer purchased all of Seller's right, title and interest in and to the membership interests of Project LLC (the "Interests"), (ii) Seller abandoned all economic and ownership interest in the Interests in favor of Buyer, (iii) Seller ceased to be a member of Project LLC and (iv) admitted Buyer as the sole member of Project LLC.

Subject to the satisfaction of certain conditions precedent by Orbit, we further agreed to be responsible for all costs of evaluating and incorporating Orbit's high solids anaerobic digestion technology consisting of a proprietary process that uses an anaerobic digester design developed by the U.S. Department of Energy and subsequently modified by Orbit in combination with the proprietary bacteria to be supplied by Orbit (the "Technology") and two high solids anaerobic digester units designed by Orbit in the Charlotte, North Carolina project up to a total maximum capacity of 100 tons per day, including both direct and indirect costs, all payments to be made to Orbit and all increased costs, expenses and any damages incurred in connection with the design, installation, integration, operation and maintenance of the Technology incorporated into the project.

We further agreed in a letter agreement dated January 29, 2015 to pay Orbit an amount equal to thirty percent (30%) of the Project's distributable cash flow after BSC and the party(ies) making an equity investment in the Project fully recoup their respective investment in the Project (such investment(s) to be calculated solely as amounts expended in and for the construction of the Project) and the Project achieves a thirty (30%) percent internal rate of return, which, for the avoidance of doubt, will take into account and be computed on the basis of any and all benefits from tax credits, depreciation and other incentives of any nature and an annual management fee of $187,500. We also agreed to enter into an operations agreement with Orbit in respect of the HSAD Units to be integrated into the Project.

We also entered into and signed the Development and Indemnification Agreement with Concord Energy Partners LLC and York Renewable Energy Partners LLC and the Amended and Restated Limited Liability Agreement of Concord Energy Partners LLC with York Renewable Energy Partners LLC pursuant to which we received $1,250,000 in cash and will receive $587,500 upon achieving mechanical completion and $587,5000 upon achieving commercial operation of our Charlotte, NC biogas project.

In parallel with this, we terminated our amended and restated construction finance agreement dated June 6, 2014 with Caterpillar Financial Services Corporation.

All of the foregoing was reported more fully on our current report on Form 8-K dated February 3, 2015.

On January 12, 2015, we issued a 10% convertible promissory note to an accredited investor in an aggregate principal amount of $220,000. The aggregate initial purchase price was $55,000, including $5,000 of original issue discount, insofar as the initial aggregate purchase amount was only $60,000. This note matures one-year from the date of issuance at the full initial principal amount of $60,000. This note may generally be converted into shares of our common stock at a conversion price of 45% discount to our lowest trade or closing prices during periods in proximity to the time of conversion subject to further discounts in the case of certain events of default. The investor reserves the right to pay additional consideration at any time and in any amount it desires, up to the total face value of this Note, at its sole discretion. The principal sum (including the prorated amount of the original issue discount) owed by the Company shall be prorated to the amount of consideration paid by the investor and only the consideration received by the Company, plus prorated interest and other fees and prorated original issue discount, shall be deemed owed by the Company. The original issue discount is set at 10% of any consideration paid. The Company is not responsible to repay any unfunded portion of such note.

The note includes customary default provisions related to payment of principal and interest and bankruptcy or creditor assignment. In addition, it shall constitute an event of default under the note if we are delinquent in our filings with the Securities and Exchange Commission, cease to be quoted on the OTCQB, or our common stock is not DWAC or DTC eligible. In the event of an event of default the notes may become immediately due and payable at a premium to the outstanding principal. The note also provides that if shares issuable upon conversion of the note are not timely delivered in accordance with the terms of the note then we shall be subject to certain cash penalties that increase proportionally to the duration of the delinquency.

On January 12, 2015, we issued an 8% convertible promissory note to an accredited investor in an aggregate principal amount of $140,400 for an aggregate purchase price of $130,000, including $140,400 of original issue discount. This note matures one-year from the date of issuance at the full principal amount of $140,400. This note may generally be converted into shares of our common stock at a conversion price of a 42% discount to our lowest trade or closing prices during periods in proximity to the time of conversion subject to further discounts in the case of certain events of default.

The note includes customary default provisions related to payment of principal and interest and bankruptcy or creditor assignment. In addition, it shall constitute an event of default under the note if we are delinquent in our filings with the Securities and Exchange Commission, cease to be quoted on the OTCQB, or our common stock is not DWAC or DTC eligible. In the event of an event of default the notes may become immediately due and payable at a premium to the outstanding principal. The note also provides that if shares issuable upon conversion of the note are not timely delivered in accordance with the terms of the note then we shall be subject to certain cash penalties that increase proportionally to the duration of the delinquency.

ITEM 6.

No.	**Description**
10.1	Amended OEC Purchase Agreement dated January 30, 2015(1)
10.2	Development and Indemnification Agreement dated January 30, 2015(1)
10.3	Amended and Restated Concord Renewable Energy Partners LLC Agreement dated January 30, 2015(1)
10.4	Orbit Letter Agreement dated January 29, 2015
10.5	Tangiers Investment Group, LLC 10% Note Purchase Agreement dated January 12, 2015
10.6	Tangiers Investment Group, LLC $60,000 Convertible Note dated January 12, 2015
10.7	Blue Citi, LLC Note Purchase Agreement dated January 12, 2015
10.8	Blue Citi, LLC 8% 140,400 Convertible Note dated January 12, 2015
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

(1) Incorporated by reference to our Form 8-K filed with the SEC on February 3, 2015

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 18, 2015

By: /s/ Shlomo Zakai

Chief Financial
Officer and
Treasurer
(Principal
Accounting
Officer and
Principal
Financial Officer)
Date: February
18, 2015

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