CONTINENTAL RESOURCES INC
Form 424B1
May 16, 2007

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Filed Pursuant to Rule 424(b)(1)
Registration No. 333-132257

PROSPECTUS

29,500,000 Shares

Continental Resources, Inc.

Common Stock

This is our initial public offering of common stock. We are offering 8,850,000 shares of our common stock. The selling shareholder identified in this prospectus is offering 20,650,000 shares of our common stock. We will not receive any proceeds from the sale of the shares by the selling shareholder.

Prior to this offering, there has been no public market for our common stock. Our common stock has been approved for listing on the New York Stock Exchange, subject to official notice of issuance, under the symbol CLR.

Investing in our common stock involves a high degree of risk. See Risk Factors beginning on page 11.

	Per share	Total
Initial public offering price	$ 15.00	$ 442,500,000

Underwriting discount	$ 0.90	$ 26,550,000
Proceeds to Continental Resources, Inc.(1)	$ 14.10	$ 124,785,000
Proceeds to selling shareholder(1)	$ 14.10	$ 291,165,000

(1) Expenses, other than underwriting discounts related to the shares sold by the selling shareholder, associated with the offering will be paid by us.

The selling shareholder has granted the underwriters an option for a period of 30 days to purchase up to 4,425,000 additional shares of common stock to cover overallotments, if any. If such option is exercised in full, the total underwriting discount will be $30,532,500 and the total proceeds to the selling shareholder will be $353,557,500.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the shares of common stock to investors on May 18, 2007.

JPMorgan **Merrill Lynch & Co.**

Citi

UBS Investment Bank

Deutsche Bank Securities

Raymond James

May 14, 2007

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Cautionary Statement Regarding Forward-Looking Statements

This prospectus contains forward-looking statements that are subject to a number of risks and uncertainties, many of which are beyond our control. All statements, other than statements of historical fact included in this prospectus, regarding our strategy, future operations, financial position, estimated revenues and losses, projected costs, prospects, plans and objectives of management are forward-looking statements. When used in this prospectus, the words could, believe, anticipate, intend, estimate, expect, project and similar expressions are intended to id forward-looking statements, although not all forward-looking statements contain such identifying words.

Forward-looking statements may include statements about our:

- business strategy;
- reserves;
- technology;
- financial strategy;
- oil and natural gas realized prices;
- timing and amount of future production of oil and natural gas;
- the amount, nature and timing of capital expenditures;
- drilling of wells;
- competition and government regulations;
- marketing of oil and natural gas;
- exploitation or property acquisitions;
- costs of exploiting and developing our properties and conducting other operations;

general economic conditions;

uncertainty regarding our future operating results; and

plans, objectives, expectations and intentions contained in this prospectus that are not historical.

All forward-looking statements speak only as of the date of this prospectus. You should not place undue reliance on these forward-looking statements. Although we believe that our plans, intentions and expectations reflected in or suggested by the forward-looking statements we make in this prospectus are reasonable, we can give no assurance that these plans, intentions or expectations will be achieved. We disclose important factors that could cause our actual results to differ materially from our expectations under Risk Factors and Management s Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this prospectus. These cautionary statements qualify all forward-looking statements attributable to us or persons acting on our behalf.

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Industry and Market Data

The market data and certain other statistical information used throughout this prospectus are based on independent industry publications, government publications or other published independent sources. Some data are also based on our good faith estimates. Although we believe these third-party sources are reliable, we have not independently verified the information and cannot guarantee its accuracy and completeness.

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Prospectus Summary

This summary highlights information contained elsewhere in this prospectus. You should read this entire prospectus carefully, including Risk Factors and our historical consolidated financial statements and the notes to those historical consolidated financial statements included elsewhere in this prospectus. Unless the context otherwise requires, references in this prospectus to Continental Resources, we, us, our, ours or company refer to Continental Resources, Inc. and its subsidiary.

We have provided definitions for the oil and natural gas terms used in this prospectus in the Glossary of Oil and Natural Gas Terms beginning on page A-1 of this prospectus. Unless otherwise indicated, the information contained in this prospectus assumes that the underwriters do not exercise their overallotment option to purchase additional shares.

Our Business

We are an independent oil and natural gas exploration and production company with operations in the Rocky Mountain, Mid-Continent and Gulf Coast regions of the United States. We focus our exploration activities in large new or developing plays that provide us the opportunity to acquire undeveloped acreage positions for future drilling operations. We have been successful in targeting large repeatable resource plays where horizontal drilling, advanced fracture stimulation and enhanced recovery technologies provide the means to economically develop and produce oil and natural gas reserves from unconventional formations. As a result of these efforts, we have grown substantially through the drillbit, adding 96.2 MMBoe of proved oil and natural gas reserves through extensions and discoveries from January 1, 2001 through December 31, 2006 compared to 5.1 MMBoe added through proved reserve purchases during that same period.

As of December 31, 2006, our estimated proved reserves were 118.3 MMBoe, with estimated proved developed reserves of 87.1 MMBoe, or 74% of our total estimated proved reserves. Crude oil comprised 83% of our total estimated proved reserves. At December 31, 2006, we had 1,772 scheduled drilling locations on the 1,775,000 gross (1,071,000 net) acres that we held. For the year ended December 31, 2006, we generated revenues of $483.7 million, and operating cash flows of $417.0 million. For the first quarter of 2007, daily production averaged approximately 28,000 Boe per day.

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The following table summarizes our total estimated proved reserves, PV-10 and net producing wells as of December 31, 2006, average daily production for the three months ended December 31, 2006 and the reserve-to-production ratio in our principal regions. Our reserve estimates as of December 31, 2006 are based primarily on a reserve report prepared by Ryder Scott Company, L.P., our independent reserve engineers. In preparing its report, Ryder Scott Company, L.P. evaluated properties representing approximately 83% of our PV-10. Our technical staff evaluated properties representing the remaining 17% of our PV-10.

	At December 31, 2006				Average daily production		
	Proved reserves (MBoe)	Percent of total	PV-10(1) (in millions)	Net producing wells	Fourth quarter 2006 (Boe per day)	Percent of total	Annualized reserve/ production index(2)
Rocky Mountain:							
Red River units	66,527	56%	$ 791	201	11,732	44%	15.5
Bakken field	25,623	22%	441	66	7,905	30%	8.9
Other	9,077	8%	104	233	1,717	7%	14.5
Mid-Continent	16,894	14%	244	672	4,280	16%	10.8
Gulf Coast	228		4	19	869	3%	0.7
Total	118,349	100%	$ 1,584	1,191	26,503	100%	12.2

(1) PV-10 is a non GAAP financial measure and generally differs from Standardized Measure, the most directly comparable GAAP financial measure, because it does not include the effects of income taxes on future net revenues. However, our PV-10 and our Standardized Measure are equivalent because we are a subchapter S-corporation. In connection with the closing of this offering, we will convert to a subchapter C-corporation. Our pro-forma Standardized Measure, assuming our conversion to a subchapter C-corporation, was $1.0 billion at December 31, 2006. Neither PV-10 nor Standardized Measure represents an estimate of the fair market value of our oil and gas properties. We and others in the industry use PV-10 as a measure to compare the relative size and value of proved reserves held by companies without regard to the specific tax characteristics of such entities.
(2) The Annualized Reserve/Production Index is the number of years proved reserves would last assuming current production continued at the same rate. This index is calculated by dividing annualized fourth quarter 2006 production into the proved reserve quantity at December 31, 2006.

The following table provides additional information regarding our key development areas:

	At December 31, 2006					2007 Budget	
	Developed acres		Undeveloped acres		Scheduled drilling locations(1)	Wells planned for drilling	Capital expenditures (in millions)
	Gross	Net	Gross	Net			
Rocky Mountain:							
Red River units	144,309	128,484			133	51	$ 151
Bakken field	81,761	60,176	581,846	342,321	804	58	145
Other	49,010	38,534	375,185	213,516	66	12	13
Mid-Continent	147,681	94,214	335,982	175,780	762	151	122

Gulf Coast	41,450	11,869	17,368	6,360	7	3	6
Total	464,211	333,277	1,310,381	737,977	1,772	275	$ 437

(1) Scheduled drilling locations represent total gross locations specifically identified and scheduled by management as an estimate of our future multi-year drilling activities on existing acreage. Of the total locations shown in the table, 249 are classified as PUDs. As of April 12, 2007, we have commenced drilling 116 locations shown in the table, including 67 PUD locations. Our actual drilling activities may change depending on oil and natural gas prices, the availability of capital, costs, drilling results, regulatory approvals and other factors. See Risk Factors Risks Relating to the Oil and Natural Gas Industry and Our Business.

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Our Business Strategy

Our goal is to increase shareholder value by finding and developing crude oil and natural gas reserves at costs that provide an attractive rate of return on our investment. The principal elements of our business strategy are:

Growth Through Drilling. Substantially all of our annual capital expenditures are invested in drilling projects and acreage and seismic acquisitions.

Internally Generate Prospects. Our technical staff has internally generated substantially all of the opportunities for the investment of our capital. Because we have been an early entrant in new or emerging plays, our costs to acquire undeveloped acreage have generally been less than those of later entrants into a developing play.

Focus on Unconventional Oil and Natural Gas Resource Plays. Our experience with horizontal drilling, advanced fracture stimulation and enhanced recovery technologies allows us to commercially develop unconventional oil and natural gas resource plays, such as the Red River B dolomite, Bakken Shale and Woodford Shale formations.

Acquire Significant Acreage Positions in New or Developing Plays. Our technical staff is focused on identifying and testing new unconventional oil and natural gas resource plays where significant reserves could be developed if commercial production rates can be achieved through advanced drilling, fracture stimulation and enhanced recovery techniques.

Our Business Strengths

We have a number of strengths that we believe will help us successfully execute our strategies:

Large Drilling and Acreage Inventory. Our large number of identified drilling locations in all of our areas of operations provide for a multi-year drilling inventory.

Horizontal Drilling and Enhanced Recovery Experience. In 1992, we drilled our initial horizontal well, and we have drilled over 350 horizontal wells since that time. We also have substantial experience with enhanced recovery methods and currently serve as the operator of 48 waterflood units and eight high-pressure air injection units.

Control Operations Over a Substantial Portion of our Assets and Investments. As of December 31, 2006, we operated properties comprising 95% of our PV-10. By controlling operations, we are able to more effectively manage the cost and timing of exploration and development of our properties.

Experienced Management Team. Our senior management team has extensive expertise in the oil and gas industry. Our seven senior officers have an average of 26 years of oil and gas industry experience.

Strong Financial Position. As of May 8, 2007, we had outstanding borrowings under our credit facility of approximately $252.5 million. We believe that our planned exploration and development activities will be funded substantially from our operating cash flows. After giving effect to this offering and the application of the net proceeds we will receive in this offering, we expect to have borrowings of approximately $129.6 million outstanding under our credit facility.

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Recent Events

Cash Dividends. On January 10, 2007, we declared a cash dividend of approximately $18.8 million to our shareholders and, subject to forefeiture, to holders of unvested restricted stock. On January 31, 2007, we paid $18.7 million of the dividend declared, of which $16.9 million was paid to our principal shareholder. On March 6, 2007, we declared a cash dividend of approximately $33.3 million to our shareholders and, subject to forfeiture, to holders of unvested restricted stock. On April 12, 2007, we paid $33.1 million of the dividend declared, of which $30.0 million was paid to our principal shareholder. We are currently a subchapter S-corporation under the rules and regulations of the Internal Revenue Service. As a result, income taxes attributable to our federal and state income are payable by our shareholders. The dividends have been paid to shareholders to fund their taxes due and estimated tax payments. In connection with the completion of this offering, we will convert from a subchapter S-corporation to a subchapter C-corporation, and we do not anticipate paying any additional cash dividends on our common stock in the foreseeable future. The selling shareholder has received dividends of approximately $13.5 million, $1.8 million, $79.0 million and $46.9 million in 2004, 2005, 2006 and 2007, respectively. The total net proceeds to the selling shareholder in this offering will be approximately $291.2 million, or approximately $353.6 million if the underwriters exercise their overallotment option in full.

Risk Factors

Investing in our common stock involves risks that include the speculative nature of oil and natural gas exploration, competition, volatile oil and natural gas prices and other material factors. You should read carefully the section entitled Risk Factors beginning on page 11 for an explanation of these risks before investing in our common stock. In particular, the following considerations may offset our business strengths or have a negative effect on our business strategy as well as on activities on our properties, which could cause a decrease in the price of our common stock and result in a loss of all or a portion of your investment:

- A substantial or extended decline in oil and natural gas prices may adversely affect our business, financial condition or results of operations and our ability to meet our capital expenditure obligations and financial commitments.
- Drilling for and producing oil and natural gas are high risk activities with many uncertainties that could adversely affect our business, financial condition or results of operations.
- Reserve estimates depend on many assumptions that may turn out to be inaccurate. Any material inaccuracies in these reserve estimates or underlying assumptions will materially affect the quantities and present value of our reserves.
- Our use of enhanced recovery methods creates uncertainties that could adversely affect our results of operations and financial condition.
- Our development and exploitation projects require substantial capital expenditures. We may be unable to obtain needed capital or financing on satisfactory terms, which could lead to a decline in our oil and natural gas reserves.
- If oil and natural gas prices decrease, we may be required to take write-downs of the carrying values of our oil and natural gas properties.

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Unless we replace our oil and natural gas reserves, our reserves and production will decline, which would adversely affect our cash flows and results of operations.

The unavailability or high cost of additional drilling rigs, equipment, supplies, personnel and oilfield services could adversely affect our ability to execute our exploration and development plans within our budget and on a timely basis.

We may incur substantial losses and be subject to substantial liability claims as a result of our oil and natural gas operations; we may not be insured for, or our insurance may be inadequate to protect us against, these risks.

Prospects that we decide to drill may not yield oil or natural gas in commercially viable quantities.

Our identified drilling locations are scheduled out over several years, making them susceptible to uncertainties that could materially alter the occurrence or timing of their drilling.

Following this offering, our Chairman and Chief Executive Officer will own approximately 73.2% of our outstanding common stock, giving him influence and control in corporate transactions and other matters.

For a discussion of other considerations that could negatively affect us, including risks related to this offering and our common stock, see Risk Factors and Cautionary Statement Regarding Forward-Looking Statements.

Corporate History and Information

Continental Resources, Inc. is incorporated under the laws of the State of Oklahoma. We were originally formed in 1967 to explore, develop and produce oil and natural gas properties in Oklahoma. Through 1993, our activities and growth remained focused primarily in Oklahoma. In 1993, we expanded our activity into the Rocky Mountain and Gulf Coast regions. Through drilling success and strategic acquisitions, approximately 86% of our estimated proved reserves as of December 31, 2006 are located in the Rocky Mountain region.

We are currently a subchapter S-corporation under the rules and regulations of the Internal Revenue Service. However, upon the consummation of this offering, we will have more shareholders than the IRS rules and regulations governing S-corporations allow, and, therefore, we will convert automatically from a subchapter S-corporation to a subchapter C-corporation. In connection with this conversion, we will record a charge to earnings (estimated to be approximately $175.7 million as if the conversion occurred on December 31, 2006) to recognize deferred taxes.

In addition, concurrent with the closing of this offering, we will effect an 11 for 1 stock split of our shares in the form of a stock dividend.

Our principal executive offices are located at 302 N. Independence, Enid, Oklahoma 73701, and our telephone number at that address is (580) 233-8955.

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The Offering

Common Stock Offered:

By Continental Resources, Inc.: 8,850,000 shares

By the selling shareholder: 20,650,000 shares

Overallotment option granted by the selling shareholder: 4,425,000 shares

Common stock to be owned by the selling shareholder after the offering: 122,980,608 shares (or 118,555,608 shares if the underwriters overallotment option is exercised in full)

Common stock to be outstanding after the offering: 168,018,636 shares

Use of Proceeds:

We will receive approximately $122.9 million of net proceeds from the sale of the common stock offered by us, after deducting underwriting discounts and estimated offering expenses. We intend to use all of the net proceeds we receive from this offering to repay a portion of borrowings outstanding under our credit facility. We will not receive any proceeds from the sale of the shares of common stock by the selling shareholder. See Use of Proceeds.

Dividend Policy:

We do not anticipate paying any cash dividends on our common stock. See Dividend Policy.

New York Stock Exchange Symbol:

CLR

Other Information About This Prospectus:

Unless specifically stated otherwise, the information in this prospectus:

- is adjusted to reflect an 11 for 1 stock split of our shares of common stock to be effected in the form of a stock dividend concurrent with the consummation of this offering; and
- assumes no exercise of the underwriters overallotment option to purchase additional shares.

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Summary Historical and Pro Forma Consolidated Financial Data

This section presents our summary historical and pro forma consolidated financial data. The summary historical consolidated financial data presented below is not intended to replace our historical consolidated financial statements.

The following historical consolidated financial data, as it relates to each of the fiscal years ended December 31, 2004 through 2006, has been derived from our audited historical consolidated financial statements for such periods. You should read the following summary historical consolidated financial data in connection with Capitalization, Management s Discussion and Analysis of Financial Condition and Results of Operations and our historical consolidated financial statements and related notes included elsewhere in this prospectus. The summary historical consolidated results are not necessarily indicative of results to be expected in future periods.

The summary pro forma financial data reflect the tax effects of our conversion, concurrent with the closing of this offering, from a subchapter S-corporation to a subchapter C-corporation and the earnings per share impact of our 11 for 1 stock split to be effected in the form of a stock dividend concurrent with the closing of this offering. The pro forma earnings per share adjustments for 2006 also give effect to the number of shares to be issued in this offering whose net proceeds would be sufficient to pay the $52.1 million of cash dividends declared in 2007.

	Year ended December 31,		
	2004	2005	2006(1)
			(as restated)
	(in thousands, except per share amounts)		
Statement of operations data:			
Revenues:			
Oil and natural gas sales	$ 181,435	$ 361,833	$ 468,602
Crude oil marketing and trading(2)	226,664		
Oil and natural gas service operations	10,811	13,931	15,050
Total revenues	418,910	375,764	483,652
Operating costs and expenses:			
Production expense	43,754	52,754	62,865
Production tax	12,297	16,031	22,331
Exploration expense	12,633	5,231	19,738
Crude oil marketing and trading(2)	227,210		
Oil and gas service operations	6,466	7,977	8,231
Depreciation, depletion, amortization and accretion	38,627	49,802	65,428
Property impairments	11,747	6,930	11,751
General and administrative(3)	12,400	31,266	31,074
(Gain) loss on sale of assets	150	(3,026)	(290)
Total operating costs and expenses	$ 365,284	$ 166,965	$ 221,128
Income from operations	$ 53,626	$ 208,799	$ 262,524

Other income (expense)			
Interest expense	(23,617)	(14,220)	(11,310)
Loss on redemption of bonds	(4,083)		
Other	890	867	1,742
Total other income (expense)	(26,810)	(13,353)	(9,568)

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	Year ended December 31,		
	2004	**2005**	**2006(1)**
			(as restated)
	(in thousands, except per share amounts)		
Income from continuing operations before income taxes	26,816	195,446	252,956
Provision (benefit) for income taxes(4)		1,139	(132)
Income from continuing operations	26,816	194,307	253,088
Discontinued operations(5)	1,680		
Loss on sale of discontinued operations(5)	(632)		
Net income	$ 27,864	$ 194,307	$ 253,088
Basic earnings per share:			
From continuing operations	$ 1.87	$ 13.52	$ 17.61
From discontinued operations(5)	0.11		
Loss on sale of discontinued operations(5)	(0.04)		
Net income per share	$ 1.94	$ 13.52	$ 17.61
Shares used in basic earnings per share	14,369	14,369	14,374
Diluted earnings per share:			
From continuing operations	$ 1.85	$ 13.42	$ 17.44
From discontinued operations(5)	0.12		
Loss on sale of discontinued operations(5)	(0.04)		
Net income per share	$ 1.93	$ 13.42	$ 17.44
Shares used in diluted earnings per share	14,476	14,482	14,515
Pro forma C-corporation and stock split data:			
Income from continuing operations before income taxes	$ 26,816	$ 195,446	$ 252,956
Pro forma provision for income taxes attributable to operations	10,190	74,269	96,123
Pro forma income from operations after tax	16,626	121,177	156,833
Discontinued operations, net of tax(5)	1,042		
Loss on sale of discontinued operations, net of tax(5)	(392)		
Pro forma net income	$ 17,276	$ 121,177	$ 156,833
Pro forma basic earnings per share	$ 0.11	$ 0.77	$ 0.97
Pro forma diluted earnings per share	0.11	0.76	0.96
Other financial data:			
Cash dividends per share	$ 1.04	$ 0.14	$ 6.06
EBITDAX(6)	116,498	285,344	372,115
Net cash provided by operations	93,854	265,265	417,041
Net cash used in investing	(72,992)	(133,716)	(324,523)

Net cash used in financing	(7,245)	(141,467)	(91,451)
Capital expenditures	94,307	144,800	326,579
Balance sheet data at December 31:			
Cash and cash equivalents	$ 15,894	$ 6,014	$ 7,018
Property and equipment, net	434,339	509,393	751,747
Total assets	504,951	600,234	858,929
Long-term debt, including current maturities	290,522	143,000	140,000
Shareholders equity	130,385	324,730	490,461

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(1) Our 2006 consolidated financial statements were restated due to increased stock-based compensation as a result of adjustments that reflected an increased historical fair value of our common stock for financial reporting purposes. See Note 1 to the Notes to the Consolidated Financial Statements included elsewhere in this prospectus.

(2) Crude oil marketing and trading captions consist of our marketing activities under which crude oil production was sold at the wellhead and transported to a local hub where we purchased the barrels back to exchange at Cushing, Oklahoma in order to minimize pricing differentials with the NYMEX oil futures contract. We adopted Emerging Issues Task Force (EITF) 04-13 on January 1, 2005, which allowed certain purchase and sales transactions with the same counterparty to be combined and accounted for as a single transaction under the guidance of Accounting Principles Board Opinion No. 29. In 2005, we netted $39.8 million of crude oil marketing and trading revenues and $39.7 million of crude oil marketing and trading expenses under oil and natural gas sales. Prior to the adoption of EITF 04-13, we presented crude oil marketing and trading revenues and expenses gross under the guidance provided by EITF 99-19, Reporting Revenues Gross as a Principal and/or Net as an Agent. Effective March 2005, we ceased marketing our crude oil production under these arrangements. Thereafter, we have sold our crude oil at the wellhead. Certain of these sales have been to our affiliates, as described under Certain Relationships and Related Party Transactions.

(3) We have included stock-based compensation of $2.0 million, $13.7 million and $10.9 million in general and administrative expenses for the years ended December 31, 2004, 2005 and 2006, respectively. See Management s Discussion and Analysis of Financial Condition and Results of Operations as well as Note 9 to the Notes to the Consolidated Financial Statements included elsewhere in this prospectus.

(4) Properties owned by us at May 31, 1997, the date we converted into a subchapter S-corporation from a subchapter C-corporation, may be subject to federal taxation if sold for an amount in excess of the then tax basis for the sold assets. During 2005, we incurred federal taxes due to the sale of assets acquired prior to May 31, 1997. The benefit recorded during 2006 reflects a change in estimate of the original provision recorded for federal taxes incurred.

(5) In July 2004, we sold all of the outstanding stock in Continental Gas, Inc., a wholly owned subsidiary, to our shareholders. The Continental Gas, Inc. assets included seven gas gathering systems and three gas-processing plants. These assets represented our entire gas gathering, marketing and processing segment. We have accounted for these operations as discontinued operations.

(6) EBITDAX represents earnings before interest expense, income taxes (when applicable), depreciation, depletion, amortization and accretion, property impairments, exploration expense and non-cash compensation expense. EBITDAX is not a measure of net income or cash flow as determined by generally accepted accounting principles (GAAP). EBITDAX should not be considered as an alternative to, or more meaningful than, net income or cash flow as determined in accordance with GAAP or as an indicator of a company s operating performance or liquidity. Certain items excluded from EBITDAX are significant components in understanding and assessing a company s financial performance, such as a company s cost of capital and tax structure, as well as the historic costs of depreciable assets, none of which are components of EBITDAX. Our computations of EBITDAX may not be comparable to other similarly titled measures of other companies. We believe that EBITDAX is a widely followed measure of operating performance and may also be used by investors to measure our ability to meet future debt service requirements, if any. Our credit facility requires that we maintain a total debt to EBITDAX ratio of no greater than 3.75 to 1 on a rolling four-quarter basis. Our credit facility defines EBITDAX consistently with the definition of EBITDAX utilized and presented by us. At December 31, 2005 and 2006, this ratio was approximately 0.5 to 1 and 0.4 to 1, respectively. The following table represents a reconciliation of our net income to EBITDAX:

	Year ended December 31,		
	2004	2005	2006
			(as restated)
		(in thousands)	
Net income	$ 27,864	$ 194,307	$ 253,088
Interest expense	23,617	14,220	11,310
Provision (benefit) for income taxes		1,139	(132)
Depreciation, depletion, amortization and accretion	38,627	49,802	65,428
Property impairments	11,747	6,930	11,751
Exploration expense	12,633	5,231	19,738
Equity compensation	2,010	13,715	10,932
EBITDAX	$ 116,498	$ 285,344	$ 372,115

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Summary Reserve, Production and Operating Data

The following table presents summary data with respect to our estimated net proved oil and natural gas reserves as of the dates indicated. Our reserve estimates as of December 31, 2004, 2005 and 2006 are based primarily on reserve reports prepared by Ryder Scott Company, L.P., our independent reserve engineers. In preparing its reports, Ryder Scott Company, L.P. evaluated properties representing approximately 83% of our PV-10 as of the end of each period. Our technical staff evaluated our remaining properties. A copy of Ryder Scott Company, L.P. s summary report as of December 31, 2006 is included in this prospectus beginning on page B-1. All calculations of estimated net proved reserves have been made in accordance with the rules and regulations of the Securities and Exchange Commission, or the SEC. For additional information regarding our reserves, see Business and Properties Proved Reserves.

	As of December 31,		
	2004	**2005**	**2006**
Proved reserves:			
Oil (MBbls)	80,602	98,645	98,038
Natural gas (MMcf)	60,620	108,118	121,865
Oil equivalents (MBoe)	90,705	116,665	118,349
Proved developed reserves percentage	83%	69%	74%
PV-10 (in millions)(1)	$ 1,114	$ 2,204	$ 1,584
Estimated reserve life (in years)	17.6	16.2	13.1
Costs incurred (in thousands):			
Property acquisition costs	$ 12,456	$ 16,763	$ 36,534
Exploration costs	30,867	9,289	68,686
Development costs	53,036	117,837	221,286
Total	$ 96,359	$ 143,889	$ 326,506

(1) PV-10 is a non GAAP financial measure and generally differs from Standardized Measure, the most directly comparable GAAP financial measure, because it does not include the effects of income taxes on future net revenues. However, our PV-10 and our Standardized Measure are equivalent because we are a subchapter S-corporation. In connection with the closing of this offering, we will convert to a subchapter C-corporation. Our pro-forma Standardized Measure, assuming our conversion to a subchapter C-corporation, was $1.0 billion at December 31, 2006. Neither PV-10 nor Standardized Measure represents an estimate of the fair market value of our oil and gas properties. We and others in the industry use PV-10 as a measure to compare the relative size and value of proved reserves held by companies without regard to the specific tax characteristics of such entities.

The following table sets forth summary data with respect to our production results, average sales prices and production costs on a historical basis for the periods presented:

	Year ended December 31,		
	2004	**2005**	**2006**
			(as restated)
Net production volumes:			

Oil (MBbls)(1)	3,688	5,708	7,480
Natural gas (MMcf)	8,794	9,006	9,225
Oil equivalents (MBoe)	5,154	7,209	9,018
Average prices(1):			
Oil, without hedges ($/Bbl)	$ 38.85	$ 52.45	$ 55.30
Oil, with hedges ($/Bbl)	37.12	52.45	55.30
Natural gas ($/Mcf)	5.06	6.93	6.08
Oil equivalents, without hedges ($/Boe)	36.45	50.19	52.09
Oil equivalents, with hedges ($/Boe)	35.20	50.19	52.09
Costs and expenses(1):			
Production expense ($/Boe)	$ 8.49	$ 7.32	$ 6.99
Production tax ($/Boe)	2.39	2.22	2.48
General and administrative ($/Boe)	2.41	4.34	3.45
DD&A expense ($/Boe)(2)	7.02	6.50	6.91

(1) Oil sales volumes are 21 MBbls less than oil production volumes for the year ended December 31, 2006. Average prices and per unit costs have been calculated using sales volumes.

(2) Rate is determined based on DD&A expense derived from oil and natural gas assets.

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Risk Factors

You should carefully consider each of the risks described below, together with all of the other information contained in this prospectus, before deciding to invest in shares of our common stock. If any of the following risks develop into actual events, our business, financial condition or results of operations could be materially adversely affected, the trading price of your shares could decline and you may lose all or part of your investment.

Risks Relating to the Oil and Natural Gas Industry and Our Business

A substantial or extended decline in oil and natural gas prices may adversely affect our business, financial condition or results of operations and our ability to meet our capital expenditure obligations and financial commitments.

The price we receive for our oil and natural gas production heavily influences our revenue, profitability, access to capital and future rate of growth. Oil and natural gas are commodities and, therefore, their prices are subject to wide fluctuations in response to relatively minor changes in supply and demand. Historically, the markets for oil and natural gas have been volatile. These markets will likely continue to be volatile in the future. The prices we receive for our production, and the levels of our production, depend on numerous factors beyond our control. These factors include the following:

- changes in global supply and demand for oil and natural gas;
- the actions of the Organization of Petroleum Exporting Countries, or OPEC;
- the price and quantity of imports of foreign oil and natural gas;
- political conditions in or affecting other oil-producing and natural gas-producing countries, including the current conflicts in the Middle East and conditions in South America and Russia;
- the level of global oil and natural gas exploration and production;
- the level of global oil and natural gas inventories;
- localized supply and demand fundamentals and transportation availability;
- weather conditions;

technological advances affecting energy consumption; and

the price and availability of alternative fuels.

Lower oil and natural gas prices will reduce our cash flows and borrowing ability. See Our development and exploitation projects require substantial capital expenditures. We may be unable to obtain needed capital or financing on satisfactory terms, which could lead to a decline in our oil and natural gas reserves. Lower oil and natural gas prices may also reduce the amount of oil and natural gas that we can produce economically. Substantial decreases in oil and natural gas prices would render uneconomic a significant portion of our exploitation projects. This may result in our having to make significant downward adjustments to our estimated proved reserves. As a result, a substantial or extended decline in oil or natural gas prices may materially and adversely affect our future business, financial condition, results of operations, liquidity or ability to finance planned capital expenditures.

In addition, because our producing properties are geographically concentrated in the Rocky Mountain region, we are vulnerable to fluctuations in pricing in that area. In particular, 81% of our production during the fourth quarter of 2006 was from the Rocky Mountain region. As a result of this concentration, we may be disproportionately exposed to the impact of regional supply and demand factors, transportation capacity

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constraints, curtailment of production or interruption of transportation of oil produced from the wells in these areas. Such factors can cause significant fluctuation in our realized oil and natural gas prices. For example, the company-wide difference between the average NYMEX oil price and our average realized oil price for the year ended December 31, 2005 was $5.24 per Bbl, whereas the company-wide difference between the NYMEX oil price and our realized oil price for the year ended December 31, 2006 was $11.04 per Bbl. The increase in the difference was caused by higher oil imports and production in the Rocky Mountain region, lower demand by local Rocky Mountain refineries due to downtime for maintenance and reduced seasonal demand for gasoline and downstream transportation capacity constraints. We are unable to predict when, or if, the difference will revert back to pre-2006 levels. If such significant price differentials continue, our future business, financial condition and results of operations may be materially adversely affected.

Drilling for and producing oil and natural gas are high risk activities with many uncertainties that could adversely affect our business, financial condition or results of operations.

Our future financial condition and results of operations will depend on the success of our exploitation, exploration, development and production activities. Our oil and natural gas exploration and production activities are subject to numerous risks beyond our control, including the risk that drilling will not result in commercially viable oil or natural gas production. We expect to invest approximately 45% of our exploration and development capital during 2007 in two relatively new unconventional projects, the Bakken Shale in western North Dakota and the Woodford Shale in eastern Oklahoma. Due to limited production history from the relatively few number of wells drilled in these projects, we are unable to predict with certainty the quantity of future production from wells to be drilled in those projects. Our decisions to purchase, explore, develop or otherwise exploit prospects or properties will depend in part on the evaluation of data obtained through geophysical and geological analyses, production data and engineering studies, the results of which are often inconclusive or subject to varying interpretations. For a discussion of the uncertainty involved in these processes, see Reserve estimates depend on many assumptions that may turn out to be inaccurate. Any material inaccuracies in these reserve estimates or underlying assumptions will materially affect the quantities and present value of our reserves. Our cost of drilling, completing and operating wells is often uncertain before drilling commences. For example, our exploration expenses increased more significantly than we had expected in 2006 to $19.7 million, primarily due to increased dry hole expenses in each of the Rocky Mountain, Mid-Continent and Gulf Coast regions as a result of a higher level of drilling in 2006. In addition, impairment provisions for our developed oil and natural gas properties increased to $6.3 million for the year ended December 31, 2006 as a result of developmental well dry holes and properties where the associated field level reserves were not sufficient to recover capitalized drilling and completion costs. Overruns in budgeted expenditures are common risks that can make a particular project uneconomical.

Further, many factors may curtail, delay or cancel our scheduled drilling projects, including the following:

- delays imposed by or resulting from compliance with regulatory requirements;
- pressure or irregularities in geological formations;
- shortages of or delays in obtaining equipment and qualified personnel;
- equipment failures or accidents;
- adverse weather conditions, such as hurricanes and tropical storms;

reductions in oil and natural gas prices;

title problems; and

limitations in the market for oil and natural gas.

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Reserve estimates depend on many assumptions that may turn out to be inaccurate. Any material inaccuracies in these reserve estimates or underlying assumptions will materially affect the quantities and present value of our reserves.

We estimate that our proved reserves as of December 31, 2006 were 118.3 MMBoe with a PV-10 of approximately $1,584 million. The process of estimating oil and natural gas reserves is complex. It requires interpretations of available technical data and many assumptions, including assumptions relating to economic factors. Any significant inaccuracies in these interpretations or assumptions could materially affect our estimated quantities and present value of our reserves. See Business and Properties Proved Reserves for information about our estimated oil and natural gas reserves and the PV-10 and standardized measure of discounted future net cash flows as of December 31, 2006.

In order to prepare our estimates, we must project production rates and timing of development expenditures. We must also analyze available geological, geophysical, production and engineering data. The extent, quality and reliability of this data can vary. The process also requires economic assumptions about matters such as oil and natural gas prices, drilling and operating expenses, capital expenditures, taxes and availability of funds.

Actual future production, oil and natural gas prices, revenues, taxes, development expenditures, operating expenses and quantities of recoverable oil and natural gas reserves most likely will vary from our estimates. Any significant variance could materially affect the estimated quantities and present value of our reserves. In addition, we may adjust estimates of proved reserves to reflect production history, results of exploration and development, prevailing oil and natural gas prices and other factors, many of which are beyond our control.

For example, our initial well in the Bakken Field was completed in August 2003. As of December 31, 2006, we had 16.4 MMBoe of proved producing reserves assigned to 121 producing wells and 9.2 MMBoe of proved undeveloped reserves assigned to 48 undrilled locations. The Bakken Field contained 22% of our total proved reserves and 30% of our total proved undeveloped reserves as of December 31, 2006. Due to the limited production history of our wells in the Bakken Field, the estimates of future production associated with such properties may be subject to greater variance to actual production than would be the case with properties having a longer production history.

You should not assume that the present value of future net revenues from our proved reserves is the current market value of our estimated oil and natural gas reserves. In accordance with SEC requirements, we generally base the estimated discounted future net cash flows from our proved reserves on prices and costs on the date of the estimate. Actual future prices and costs may differ materially from those used in the present value estimate. If oil prices decline by $1.00 per Bbl, then our PV-10 as of December 31, 2006 would decrease from $1,584 million to $1,536 million. If natural gas prices decline by $0.10 per Mcf, then our PV-10 as of December 31, 2006 would decrease from $1,584 million to $1,582 million.

Our use of enhanced recovery methods creates uncertainties that could adversely affect our results of operations and financial condition.

One of our business strategies is to commercially develop unconventional oil and natural gas resource plays using enhanced recovery technologies. For example, we inject water and high-pressure air into formations on some of our properties to increase the production of oil and natural gas. The additional production and reserves attributable to the use of these enhanced recovery methods are inherently difficult to predict. If our enhanced recovery programs do not allow for the extraction of oil and natural gas in the manner or to the extent that we anticipate, our future results of operations and financial condition could be materially adversely affected.

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Our development and exploitation projects require substantial capital expenditures. We may be unable to obtain needed capital or financing on satisfactory terms, which could lead to a decline in our oil and natural gas reserves.

The oil and natural gas industry is capital intensive. We make and expect to continue to make substantial capital expenditures in our business for the development, exploitation, production and acquisition of oil and natural gas reserves. We invested approximately $326.6 million for capital and exploration expenditures in 2006. Our budgeted capital expenditures for 2007 are expected to increase approximately 34% over the $326.6 million invested during 2006. To date, these capital expenditures have been financed with cash generated by operations and through borrowings from banks and from our principal shareholder. The actual amount and timing of our future capital expenditures may differ materially from our estimates as a result of, among other things, actual drilling results, the availability of drilling rigs and other services and equipment, and regulatory, technological and competitive developments. We intend to finance our future capital expenditures primarily through cash flow from operations and through borrowings under our revolving credit facility; however, our financing needs may require us to alter or increase our capitalization substantially through the issuance of debt or equity securities. The issuance of additional debt will require that a portion of our cash flow from operations be used for the payment of interest and principal on our debt, thereby reducing our ability to use cash flow to fund working capital, capital expenditures and acquisitions. The issuance of additional equity securities could have a dilutive effect on the value of your common stock.

Our cash flow from operations and access to capital are subject to a number of variables, including:

- our proved reserves;
- the level of oil and natural gas we are able to produce from existing wells;
- the prices at which our oil and natural gas are sold; and
- our ability to acquire, locate and produce new reserves.

If our revenues or the borrowing base under our credit facility decrease as a result of lower oil or natural gas prices, operating difficulties, declines in reserves or for any other reason, we may have limited ability to obtain the capital necessary to sustain our operations at current levels. If additional capital is needed, we may not be able to obtain debt or equity financing. If cash generated by operations or cash available under our revolving credit facility is not sufficient to meet our capital requirements, the failure to obtain additional financing could result in a curtailment of our operations relating to development of our prospects, which in turn could lead to a decline in our oil and natural gas reserves, and could adversely affect our business, financial condition and results of operations.

If oil and natural gas prices decrease, we may be required to take write-downs of the carrying values of our oil and natural gas properties.

Accounting rules require that we review periodically the carrying value of our oil and natural gas properties for possible impairment. Based on specific market factors and circumstances at the time of prospective impairment reviews, and the continuing evaluation of development plans, production data, economics and othe

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Receipts on account for stock capital from conversion of loan Notes

257

257

Benefit related to conversion of loan Notes

112

112

Amortization of deferred Stock-based compensation related to options granted to employees, consultants and directors

197

197

Net Loss

(899
)

(899
)

Balance as of September 30, 2007, (Unaudited)

$
209

$
11,347

$
369

$
-

$
(11,948
)

$
(23
)

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

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SPO MEDICAL INC.
AND ITS SUBSIDIARY
CONDENSED INTERIM STATEMENTS OF CASH FLOWS
U.S. dollars in thousands

	Nine months ended September 30, 2007	Nine months ended September 30, 2006	Three months ended September 30, 2007	Three months ended September 30, 2006
Cash Flows from Operating Activities				
Loss for the period	$ (899)	$ (4,516)	$ (436)	$ (2,810)
Adjustments to reconcile loss to net cash used in operating activities:				
Depreciation	21	17	8	5
Stock-based compensation expenses	286	952	147	50
Amortization of loan discounts, net	440	625	107	148
Benefit resulting from changes to warrant terms	42	2,534	42	2,534
Increase (decrease) in accrued severance pay, net	2	(13)	(5)	(7)
Increase in accrued interest payable on loans	121	114	38	45
Changes in assets and liabilities:				
Increase in trade receivables	(442)	(335)	(260)	(83)
Decrease (increase) in other receivables	70	(47)	115	(41)
Decrease (Increase) in inventories	(182)	(202)	53	(160)
Increase (decrease) in trade payable	(4)	93	(173)	1
Increase in other payables and accrued expenses	297	331	62	228
Net cash used in operating activities	(248)	(447)	(302)	(90)
Cash Flows from Investing Activities				
Decrease (Increase) in deposits	(1)	(1)	1	-
Sale of property and equipment	1	-	1	-
Purchase of property and equipment	(36)	(55)	(12)	(21)
Net cash used in investing activities	(36)	(56)	(10)	(21)
Cash Flows from Financing Activities				
Issuance of stock capital	1,183	580	1,183	-
Exercise of warrants by consultant	-	5	-	-
Receipt of short-term loan	-	152	-	68
Proceeds on grant of exercisable warrants	-	428	-	362
Exercise of stock options	10	-	-	-
Repayment of short-term loans	(122)	(301)	(81)	(40)
Net cash provided by financing activities	1,071	864	1,102	390
Increase in cash and cash equivalents	787	361	790	279
Cash and cash equivalents at the beginning of the period	836	493	833	575
Cash and cash equivalents at the end of the period	$ 1,623	$ 854	$ 1,623	$ 854
Non cash transactions:				
conversion of convertible notes	$ -	$ 569	$ -	$ 569
Receipts on account for stock capital from conversion of loan Notes	$ 257	$ -	$ 257	$ -

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

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SPO MEDICAL INC.
AND ITS SUBSIDIARY
NOTES TO FINANCIAL STATEMENT
U.S. dollars in thousands except share data

NOTE 1 - General

SPO Medical Inc. (hereinafter referred to as "SPO" or the "Company") was originally incorporated under the laws of the State of Delaware in September 1981 under the name "Applied DNA Systems, Inc." On November 16, 1994, the Company changed its name to "Nu-Tech Bio-Med, Inc." On December 23, 1998, the Company changed its name to "United Diagnostic, Inc." Effective April 21, 2005, the Company acquired (the "Acquisition Transaction") 100% of the outstanding capital stock of SPO Medical Equipment Ltd., a company incorporated under the laws of the State of Israel ("SPO Ltd."), pursuant to a Capital Stock Exchange Agreement dated as of February 28, 2005 between the Company, SPO Ltd. and the shareholders of SPO Ltd., as amended and restated on April 21, 2005 (the "Exchange Agreement"). In exchange for the outstanding capital stock of SPO Ltd., the Company issued to the former shareholders of SPO Ltd. a total of 5,769,106 shares of the Company's common stock, par value $0.01 per share ("Common Stock"), representing approximately 90% of the Common Stock then issued and outstanding after giving effect to the Acquisition Transaction. As a result of the Acquisition Transaction, SPO Ltd. became a wholly owned subsidiary of the Company as of April 21, 2005 and, subsequent to the Acquisition Transaction, the Company changed its name to "SPO Medical Inc." Upon consummation of the Acquisition Transaction, the Company effectuated a forward subdivision of the Company's Common Stock issued and outstanding on a 2.65285:1 basis.

The merger between UNDI and the SPO Ltd was accounted for as a reverse merger. As the shareholders of SPO Ltd received the largest ownership interest in the Company, SPO Ltd was determined to be the "accounting acquirer" in the reverse acquisition. As a result, the historical financial statements of the Company were replaced with the historical financial statements of SPO Ltd.

The Company and its subsidiary, SPO Ltd., are collectively referred to as the "Company".

NOTE 2 - Basis of Presentation

The accompanying un-audited condensed consolidated interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and the instructions to Form 10-QSB and Article 10 of Regulation S-X. These financial statements reflect all adjustments, consisting of normal recurring adjustments and accruals, which are, in the opinion of management, necessary for a fair presentation of the financial position of the Company as of September 30, 2007 and the results of operations and cash flows for the interim periods indicated in conformity with generally accepted accounting principles applicable to interim periods. Accordingly, certain information and footnote disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted.

The nine and three months ended September 30, 2007, are not necessarily indicative of the results that may be expected for the year ended December 31, 2007.

SPO MEDICAL INC.
AND ITS SUBSIDIARY
NOTES TO FINANCIAL STATEMENT
U.S. dollars in thousands except share data

NOTE 3 - GOING CONCERN
As reflected in the accompanying financial statements, the Company’s operations for the nine and three months ended September 30, 2007, resulted in a net loss of $899 and $436 respectively, and the Company’s balance sheet reflects a net stockholders’ deficit of $23. The Company’s ability to continue operating as a “going concern” is dependent on its ability to raise additional working capital. Management’s plans in this regard include raising additional cash from current and potential stockholders and increasing the marketing of its current and new products.

NOTE 4 - STOCKHOLDERS EQUITY
On July 5, 2007, the Company privately placed with an institutional investor 1,444,444 shares of its Common Stock for aggregate gross proceeds of $1,300. The Shares were placed pursuant to a Confidential Private Placement Agreement between the Company and the investor entered into as of July 5, 2007. In connection with the placement of the shares, the Company paid to a placement agent a cash fee of $117.

In July 2006, the Company commenced a private placement of units of securities, with each unit comprised of (i) the Company's 8% month promissory note due 12 months from the date of issuance and (ii) warrants as described below, pursuant to which it raised $550 (the maximum amount that could be raised from this offering). Under the terms of the offering, the principal and accrued interest is due in one balloon payment at the end of the twelve month period. Each purchaser of the notes received warrants, exercisable over a period of two years from the date of issuance, to purchase16,250 shares of Common Stock for each $25 of principal loaned, at a per share exercise price equal to the lower of $1.50 or 35% less than any the offering price at an initial public offering of the Company's Common Stock during the warrant exercise period. During the quarter ended September 30, 2007, the Company offered to the holders of the notes to convert the principal and accrued interest into shares of the Company’s Common Stock at a per share conversion price of $0.90 and to reduce the per share exercise price of the warrants to $0.90. As of November XX, 2007, the holders of $238 of the principal amount agreed to convert the principal and accrued interest thereon into shares of the Company’s Common Stock. The Company repaid to a note holder the principal amount of $75 and the accrued interest thereon. The warrants held by note holders who do not convert are not being repriced.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

THE FOLLOWING DISCUSSION SHOULD BE READ IN CONJUNCTION WITH OUR FINANCIAL STATEMENTS AND THE NOTES RELATED TO THOSE STATEMENTS. SOME OF OUR DISCUSSION IS FORWARD-LOOKING AND INVOLVES RISKS AND UNCERTAINTIES. FOR INFORMATION REGARDING RISK FACTORS THAT COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS, REFER TO THE RISK FACTORS SECTION OF THE ANNUAL REPORT ON FORM 10-KSB FOR THE YEAR ENDED DECEMBER 31, 2006.

OVERVIEW

SPO Medical Inc. is engaged in the design, development and marketing of non-invasive pulse oximetry technologies to monitor blood oxygen saturation and heart rate for a variety of markets, including medical, homecare, sports and search & rescue. Pulse oximetry is a non-invasive process used to measure blood oxygen saturation levels and is an established procedure in medical practice. We utilize proprietary and patented technologies to deliver oximetry functionality through innovative commercial products that address such applications as emergency care, home monitoring, sleep apnea, cardiovascular performance, cardiac rehabilitation and the physiological monitoring of military personnel and safety care workers.

We have developed and patented proprietary technology that enables the use of pulse oximetry in a reflectance mode of operation (i.e. a sensor that can be affixed to a single side of a body part). This technique is known as Reflectance Pulse Oximetry (RPO). Using RPO, a sensor can be positioned on various body parts, hence minimizing problems of motion and poor profusion. The unique design features contribute to substantially lower electric power requirements and enable a wireless, stand-alone configuration with expanded commercial possibilities. We hold three patents issued by the United States Patent and Trademark Office ("USPTO") covering various aspects of our unique sensors for radiance based diagnostics using pulse oximetry. Although we believe that our existing issued patents provide a competitive advantage, there can be no assurance that the scope of our patent protection is or will be adequate to protect our technologies or that the validity of any patent issued will be upheld in the future.

We were originally organized under the laws of the State of Delaware in September 1981 under the name "Applied DNA Systems, Inc." On November 16, 1994, we changed our name to "Nu-Tech Bio-Med, Inc." On December 23, 1998, we changed our name to "United Diagnostic, Inc." Effective April 21, 2005, we acquired 100% of the outstanding capital stock of SPO Ltd. pursuant to a Capital Stock Exchange Agreement dated as of February 28, 2005 among the Company, SPO Ltd. and the shareholders of SPO Ltd., as amended and restated on April 21, 2005 pursuant to which we issued to the former shareholders of SPO Ltd. a total of 5,769,106 shares of the Company's Common Stock representing approximately 90% of the Common Stock then issued and outstanding.

As of November __, 2007, we had 19 employees (and consultants) working on a full time basis. On October 8, 2007, our common stock began to be quoted on the over-the-counter- Bulletin Board under the stock symbol “SPOM”.

CRITICAL ACCOUNTING POLICIES

The discussion and analysis of our financial condition and results of operations are based upon our unaudited consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles in the United States. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to revenue recognition, bad debts, investments, intangible assets and income taxes. Our estimates are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

We have identified the accounting policies below as critical to our business operations and the understanding of our results of operations.

REVENUE RECOGNITION

We generate revenues principally from sales of our products. Revenues from the sale of products are recognized when delivery has occurred, persuasive evidence of an arrangement exists, the vendor's fee is fixed or determinable, no further obligation exists and collection of is probable and there are no remaining significant obligations. Delivery is deemed to have occurred upon shipment of products from any of our distribution centers.

INVENTORY VALUATION

Inventories are stated at the lower of cost or market value. Cost is determined as follows: Raw materials, components and finished products are valued using the first in first out (FIFO) basis. Work-in-process - is valued on the basis of cost or market value of the raw materials components plus the related manufacturing costs.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

RESULTS OF OPERATIONS

COMPARISON OF THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2007 AND THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2006

REVENUES **.** Revenues are currently derived primarily from sales of our PulseOX 5500 TM and Check Mate products designed for the medical, homecare and sports markets. Revenues for the three and nine months ended September 30, 2007 were $1,408,000 and $4,174,000, respectively. Revenues for the corresponding periods in 2006 were $929,000 and $2,520,000, respectively. The increase in revenues during the 2007 periods reflected increased sales of our products.

COSTS OF REVENUES. Costs of revenues for the three and nine months ended September 30, 2007 were $673,000 and $1,938,000, respectively. Costs of revenues for the corresponding periods in 2006 were $435,000 and $1,264,000, respectively. Costs of revenues include all costs related to manufacturing and selling products and services and consist primarily of direct material costs and salaries and related expenses for personnel. The increase in cost of revenues during the 2007 periods is primarily attributable to the increase in sales of our products.

RESEARCH AND DEVELOPMENT EXPENSES. Research and development expenses consist primarily of expenses incurred in the design, development and testing of our products. These expenses consist primarily of salaries and related expenses for personnel, contract design and testing services, supplies used and consulting and license fees paid to third parties. Research and development expenses for the three and nine months ended September 30, 2007 were $256,000 and $799,000, respectively. Research and development expenses for the corresponding periods in 2006 were $204,000 and $549,000, respectively. The increase in research and development expenses during the 2007 periods is primarily attributable to increased employee and related compensation costs and in the investment of developing new products.

SELLING AND MARKETING EXPENSES. Selling and marketing expenses consist primarily of costs relating to compensation attributable to employees engaged in sales and marketing activities, promotion, sales support, travel and related expenses. Selling and marketing expenses for the three and nine months ended September 30, 2007 were $162,000 and $552,000, respectively. Selling and marketing expenses for the corresponding periods in 2006 were $161,000 and $463,000, respectively. The increase in selling and marketing expenses during 2007 is primarily attributable to the amounts expensed that related to market research for new products being developed.

GENERAL AND ADMINISTRATIVE EXPENSES. General and administrative expenses primarily consist of salaries and other related costs for personnel in executive and other administrative functions. Other significant costs include professional fees for legal, accounting services. General and administrative expenses for the three and nine months ended September 30, 2007 were $438,000 and $1,030,000, respectively. General and administrative costs for the corresponding periods in 2006 were $197,000 and $716,000 respectively. The increase in general and administrative expenses during 2007 is primarily attributable to professional fees incurred in connection with our efforts to raise additional funds through public and/or private offerings of our securities in and outside the United States.

FINANCIAL EXPENSES, NET . Financial expense, net, for the three and nine months ended September 30, 2007 were $315,000 and $754,000, respectively. Financial expenses, net, for the corresponding periods in 2006 were $2,742,000 and $4,044,000 respectively. The decrease in financial expenses is primarily attributable to a one time non-cash expense that was recognized in the 2006 periods in respect of stock based compensation benefits as well the interest accrued on loans that were advanced to us since April 2005 and which matured during 2006.

NET LOSS. For the three and nine months ended September 30, 2007 we had a net loss of $436,000 and $899,000, respectively. Net loss for the corresponding periods in 2006 were $2,810,000 and $4,516,000, respectively. The decrease in net loss during the 2007 periods is primarily attributable to the one time non-cash expense that was recognized in the 2006 periods in respect of deferred compensation benefits and interest expenses on loans which are discussed above under "Financial Expenses, Net".

LIQUIDITY AND CAPITAL RESOURCES

As at September 30, 2007, we had cash and cash equivalents of approximately $1,623,000 compared to $836,000 at December 31, 2006. Our cash position improved as a result of the proceeds from the private placement that we completed in July 2007 which is discussed further, below.

We generated net negative cash flows from operating activities of approximately $248,000 during the nine months ended September 30, 2007 compared to negative cash flows of approximately $447,000 for the nine months ended September 30, 2006.

In December 2005 we completed the private placement to certain accredited investors that we commenced in April 2005 for the issuance of up to $1,544,000 of units of our securities, with each unit comprised of (i) our 18 month 6% promissory note (collectively, the "April 2005 Notes") and (ii) three year warrants to purchase up to such number of shares of our Common Stock as are determined by the principal amount of the Note purchased by such investor divided by $ 0.85 (collectively the "April 2005 Warrants"). In September 2006, we offered to the holders of the April 2005 Notes to revise certain of the terms of the original offering in order to facilitate an extension to the scheduled maturity date of the Note, (hereinafter the "Amendment"). The Amendment provides that (a) the maturity date of the April 2005 Notes is to be extended to March 26, 2008, (b) the exercise period of the April 2005 Warrants is to be extended from three to five years with an expiration date of September 26, 2010 and the per share exercise price was adjusted to $0.60 and (c) the interest rate on the amounts outstanding under the April 2005 Notes was increased to 8% per annum, effective July 12, 2006. The Amendment also provides that if we subsequently issue shares of our Common Stock at an effective per share exercise price less than that of the adjusted per share exercise price of the April 2005 Warrants during the adjusted exercise period, then the exercise price thereof is to be reduced to such lower exercise price; provided, that, this protection will not apply to certain of our equity or debt issuances (i) from approved stock option plans to employees, directors and other service providers, (ii) upon exercise of options and warrants outstanding as of September 27, 2006 and (iii) to our consultants that an unaffiliated third party would deem to be commercially reasonable and fair. In addition, the Amendment also provides that, subject to certain qualifications, our obligation to file a registration statement under the Securities Act of 1933, as amended, relating to the resale of our Common Stock underlying the April 2005 Warrants is extended to April 15, 2007. The Amendment became effective as of September 30, 2006. The Amendment resulted in a one time non-cash finance expense in the amount of approximately $2,500,000 being recognized in 2006. As of November 5, 2007, holders of Notes in the principal amount $1,439,000 have signed the Amendment and the holder of a note in the principal amount of $50,000 which matured on November 30, 2006 has requested repayment of principle and accrued interest. The Company is currently in contact with the remaining note holders of $55,000 of the April 2005 Notes with respect to obtaining their formal execution of the Amendment.

In July 2006, we commenced a private placement of units of our securities, with each unit comprised of (i) our 8% month promissory note due 12 months from the date of issuance and (ii) warrants as described below, pursuant to which we raised $550,000 (the maximum amount that could be raised from this offering). Under the terms of the offering, the principal and accrued interest is due in one balloon payment at the end of the twelve month period. Each purchaser of the notes received warrants, exercisable over a period of two years from the date of issuance, to purchase16,250 shares of Common Stock for each $25,000 of principal loaned, at a per share exercise price equal to the lower of $1.50 or 35% less than any the offering price at an initial public offering of the Company's Common Stock during the warrant exercise period. During the quarter ended September 30, 2007, we offered to the holders of the notes to convert the principal and accrued interest into shares of the Company’s Common Stock at a per share conversion price of $0.90. As of November 5, 2007 the holders of $238,000 of the principal amount agreed to convert the principal and accrued interest thereon into shares of our Common Stock. We repaid to a note holder the principal amount of $75,000 and the accrued interest thereon. The Company is currently in contact with the remaining note holders with respect to obtaining their consent to the Amendment and the conversion of their Notes.

Our recent financings are discussed below.

In March 2007, we entered into a Line of Credit Facility with an institutional investor pursuant to which we can borrow up to $200,000, which can be drawn on demand at the discretion of the Company. The facility continues in effect until January 28, 2008. Amounts outstanding accrue interest at a per annum rate of 9% and accrued interest is payable on a quarterly basis, All amounts borrowed and accrued and unpaid interest need to be repaid by January 28, 2009. In consideration of the line of credit facility, we issued to the investor a warrant for 50,000 shares of our Common Stock, exercisable through March 27, 2010 at a per share exercise price of $1.50, of which warrants for 20,000 shares is exercisable immediately and the warrants for the remaining 30,000 shares exercisable only following (and subject to) our first draw-down under the facility. To date, we have not drawn down any amounts under the line of credit facility.

In July 2007 we issued to an investor 1,444,444 shares of our Common Stock for aggregate gross proceeds of $1,300,000. The net proceeds from this financing were $1,183,000 after cash fee paid to the placement agent.

We will need to raise additional funds to be able to satisfy our cash requirements over the next twelve months. Continuing product development and enhancement, expected new product launches, corporate operations and marketing expenses will continue to require additional capital. Our current revenues from operations are insufficient to cover our projected expansion plans. We therefore are seeking additional financing through the sale of our equity and/or debt securities to satisfy future capital requirements until such time as we are able to generate sufficient cash flow from revenues to finance on-going operations. No assurance can be provided that additional capital will be available to us on commercially acceptable or at all. Our auditors included a "going concern" qualification in their auditors' report for the year ended December 31, 2006. While we raised approximately $1,300,000 in gross proceeds from the issuance of our debt and equity securities during 2006 , such "going concern" qualification may make it more difficult for us to raise funds when needed. Additional equity financings may be dilutive to holders of our Common Stock.

ITEM 3. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES. We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure based closely on the definition of "disclosure controls and procedures" in Rule 13a-14(c).

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective.

CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING. During the quarter ended September 30, 2007, there have been no changes in our internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, these controls.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

None.

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

The following paragraph sets forth certain information with respect to all securities sold by us during the three months ended September 30, 2007 without registration under the Securities Act.

1. On July 5, 2007, we issued to an investor 1,444,444 shares of our Common Stock for total gross cash proceeds of $1,300,000.

2. On September 4, 2007, we issued to a service provider warrants, exercisable through September 2011, to purchase up to 100,000 shares of our Common Stock, exercisable upon certain specified events.

All of the securities issued in the transactions described above were issued without registration under the Securities Act in reliance upon the exemptions provided in Section 4(2) of the Securities Act or Regulation S under such Securities Act. Except with respect to securities sold under Regulation S, the recipients of securities in each such transaction acquired the securities for investment only and not with a view to or for sale in connection with any distribution thereof. Appropriate legends were affixed to the share certificates issued in all of the above transactions. Each of the recipients represented that they were "accredited investors" within the meaning of Rule 501(a) of Regulation D under the Securities Act, or had such knowledge and experience in financial and business matters as to be able to evaluate the merits and risks of an investment in its common stock. All recipients had adequate access, through their relationships with the Company and its officers and directors, to information about the Company. None of the transactions described above involved general solicitation or advertising.

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

None.

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS.

10.1 Confidential Private Placement Subscription Agreement dated as of July 7, 2007 by and between SPO Medical Inc. and Rig III.

10.2 Form of Agreement Relating to the Conversion of outstanding Debt Instruments

31.1 Rule 13a - 14(a) Certification of Principal Executive Officer

31.2 Rule 13a - 14(a) Certification of Principal Financial Officer

32.1 Section 1350 Certification of Principal Executive Officer

32.2 Section 1350 Certification of Principal Financial Officer

SIGNATURES

In accordance with the requirements of the Exchange Act, the small business issuer has caused this report to be signed by the undersigned thereunto duly authorized.

DATE: November 5, 2007 SPO MEDICAL INC.

/s/ MICHAEL BRAUNOLD
MICHAEL BRAUNOLD
PRESIDENT AND CHIEF EXECUTIVE OFFICER

PRINCIPAL FINANCIAL AND ACCOUNTING OFFICER

DATE: November 5, 2007

BY /s/ JEFF FEUER
JEFF FEUER,
CHIEF FINANCIAL OFFICER
(PRINCIPAL FINANCIAL AND ACCOUNTING OFFICER)

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