

BLUE SPHERE CORP.
Form 10-Q
November 21, 2016

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

FORM 10-Q

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

For the quarterly period ended September 30, 2016

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

For the transition period from _____ to _____

Commission File No. **000-55127**

Blue Sphere Corporation

(Exact name of registrant as specified in its
charter)

Nevada

98-0550257

(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

**301 McCullough Drive, 4th Floor, Charlotte,
North Carolina 28262**

(Address of principal executive offices) (zip code)

704-909-2806

(Registrant's telephone number, including area
code)

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(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 No

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

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the 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

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

Yes No

State the number of shares outstanding of each of the issuer’s classes of common equity as of the latest practicable date: As of October 31, 2016, there were 262,776,552 shares of common stock, par value \$0.001 per share (“Common Stock”), issued and outstanding.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

BLUE SPHERE CORPORATION

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS OF SEPTEMBER 30, 2016

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BLUE SPHERE CORPORATION**CONDENSED CONSOLIDATED BALANCE SHEETS**

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

	September 30, 2016 Unaudited	September 30, 2015 Audited
Assets		
CURRENT ASSETS:		
Cash and cash equivalents	\$375	\$161
Other current assets	1,672	21
Total current assets	2,047	182
PROPERTY, PLANT AND EQUIPMENT, net of accumulated depreciation	50	31
OTHER LONG TERM ASSETS	22	—
INVESTMENTS IN JOINT VENTURES	9,254	4,952
INVESTMENTS IN NON-CONSOLIDATED SUBSIDIARIES	4,086	—
Total assets	\$15,459	\$5,165
Liabilities and Stockholders' Deficiency		
CURRENT LIABILITIES:		
Current maturities of long term loan	\$347	\$32
Accounts payables	623	58
Other accounts payable and liabilities	1,959	1,200
Deferred revenues from joint ventures	10,736	6,434
Total current liabilities	13,665	7,724
LONG TERM BANK LOANS	124	135
LONG TERM LOANS AND LIABILITIES	5,570	—
DEBENTURES	2,567	—
WARRANTS TO ISSUE SHARES	2,482	—
STOCKHOLDERS' DEFICIENCY:		
Common shares of \$0.001 par value each:		
Authorized: 1,750,000,000 shares at September 30, 2016 and September 30, 2015.		
Issued and outstanding: 262,776,552 shares and 167,952,595 shares at September 30, 2016 and September 30, 2015, respectively	1,338	1,244
Proceeds on account of shares	—	20
Treasury shares	(28)	(28)
Accumulated other comprehensive income	6	—
Additional paid-in capital	41,849	39,474
Accumulated deficit	(52,114)	(43,404)

Total Stockholders' Deficiency	(8,949)	(2,694)
Total liabilities and Stockholders' Deficiency	\$15,459	\$5,165

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

BLUE SPHERE CORPORATION**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

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

	Nine months ended September 30		Three months ended September 30	
	2016 (Unaudited)	2015 (Unaudited)	2016 (Unaudited)	2015 (Unaudited)
OPERATING EXPENSES				
General and administrative expenses	6,287	4,504	1,782	1,054
Other losses (income)	(97	) (33	) 5	24
OPERATING LOSS	(6,190	) (4,471	) (1,787	) (1,078
FINANCIAL EXPENSES (INCOME), net	177	1,677	(968	) 126
EQUITY INCOME (LOSS) IN NON-CONSOLIDATED SUBSIDIARIES	(1,055	) —	90	—
NET INCOME (LOSS) FOR THE PERIOD	\$(7,422	) \$(6,148	) \$(729	) \$(1,204
Net loss per common share - basic and diluted	\$(0.033	) \$(0.063	) \$(0.003	) \$(0.010
Weighted average number of common shares outstanding during the period - basic and diluted	226,092,398	97,056,429	247,645,712	124,326,729

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

BLUE SPHERE CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

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

	Nine months ended		Three months ended	
	September 30		September 30	
	2016	2015	2016	2015
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
NET INCOME (LOSS)	\$ (7,422)	\$ (6,148)	\$ (729)	\$ (1,204)
Other comprehensive income (loss), net of tax:				
Currency translation adjustments	6	—	(2)	—
TOTAL COMPREHENSIVE INCOME (LOSS)	\$ (7,416)	\$ (6,148)	\$ (727)	\$ (1,204)

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

BLUE SPHERE CORPORATION**STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIENCY (UNAUDITED)**

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

	Common Stock, \$0.001 Par Value		Proceeds on account of	Treasury	other comprehensive income	Additional paid-in Capital	Accumulated deficit	Total Stockholders' deficiency
	Shares	Amount	Shares	Shares	income	Capital	deficit	deficiency
BALANCE AT DECEMBER 31, 2015 (Unaudited)	180,502,443	\$ 1,256	\$ 165	(28)	—	\$ 39,813	\$ (44,692)	\$ (3,486)
CHANGES DURING THE PERIOD OF NINE MONTHS ENDED SEPTEMBER 30, 2016 (Unaudited):								
Extinguish of liability upon shares issuance	7,503,467	7				653		660
Issuance of shares for services	4,558,000	5				636		641
Issuance of common stock, net of issuance costs	55,581,900	55	(20)			576		611
Issuance of common stock in respect of issuance of convertible notes	13,930,742	14	(145)			131		—
Exercise of warrants	700,000	1				40		41
Comprehensive loss					6		(7,422)	(7,416)
BALANCE AT SEPTEMBER 30, 2016 (Unaudited)	262,776,552	\$ 1,338	\$ —	\$ (28)	\$ 6	\$ 41,849	\$ (52,114)	\$ (8,949)

Common Stock, \$0.001 Par Value	Proceeds on account of	Treasury	Additional paid-in Capital	Accumulated deficit	Total Stockholders' deficiency
Shares	Amount	Shares	shares	deficit	deficiency

BALANCE AT							
DECEMBER 31, 2014	51,125,044	\$ 1,127	\$ 20		\$ 35,662	\$ (37,256)	\$ (447)
(Unaudited)							
CHANGES DURING THE							
PERIOD OF							
NINE MONTHS ENDED							
SEPTEMBER 30, 2015							
(Unaudited):							
Share based compensation					461		461
Issuance of common stock, net	9,338,682	9			338		347
of issuance expenses							
Issuance of shares for services	32,572,509	32			1,448		1,480
Issuance of common stock in							
respect of issuance of	75,060,414	76			1,405		1,481
convertible notes							
Issuance of convertible							
debentures containing a					160		160
beneficial conversion feature							
Treasury shares	(144,054)			(28)			(28)
Net loss for the period						(6,148)	(6,148)
BALANCE AT							
SEPTEMBER 30, 2015	167,952,595	\$ 1,244	\$ 20	\$ (28)	\$ 39,474	\$ (43,404)	\$ (2,694)
(Unaudited)							

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

BLUE SPHERE CORPORATION**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(U.S. dollars in thousands)

	Nine months ended	
	September 30	
	2016	2015
	(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss for the period	\$ (7,422)	\$ (6,148)
Adjustments required to reconcile net loss to net cash used in operating activities:		
Share based compensation	371	461
Depreciation	12	5
Capital loss from disposal of property, plant and equipment	5	—
Equity losses in nonconsolidated subsidiary	1,055	(19)
Expense in respect of convertible notes and loans	163	1,527
Changes in Warrants to issue shares	(432)	—
Issuance of shares for services	641	1,480
Projects costs expensed	—	469
Impairment of Investment	—	(22)
Decrease (increase) in other current assets	(193)	265
Increase in other long term assets	(22)	—
(Decrease) in accounts payables	499	51
Increase in other account payables	1,142	341
Increase in deferred revenues	—	1,482
Net cash used in operating activities	(4,181)	(108)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment in nonconsolidated subsidiary	—	24
Purchase of property and equipment	(60)	(1)
Net cash provided by (used in) investing activities	(60)	23
CASH FLOWS FROM FINANCING ACTIVITIES:		
Loans received	50	822
Payment of loans and convertible debentures	(364)	(1,074)
Proceeds from issuance of shares and warrants	3,001	315
Proceeds from exercise of warrants	41	65
Net cash provided by financing activities	2,728	128
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,513)	43
EFFECT OF CHANGES IN EXCHANGE RATES ON CASH BALANCES IN FOREIGN CURRENCIES	—	—
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	1,888	118

CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$375	\$ 161
NON-CASH TRANSACTION:		
Extinguish of debt upon shares issuance	435	—
Deferred net equity in joint ventures	1,684	4,952
Issuance expense paid through warrants issuance	225	—
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	\$554	\$ 172

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

BLUE SPHERE CORPORATION

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 audited 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 Corporation (the “Company”). These condensed 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, 2015, as filed with the U.S. Securities and Exchange Commission. The results of operations for the nine and three months ended September 30, 2016 are not necessarily indicative of results that could be expected for the entire fiscal year.

NOTE 2 – GENERAL

Blue Sphere Corporation (the “Company”), together with its wholly-owned subsidiaries, Eastern Sphere Ltd. (“Eastern”), BinoSphere LLC (“Binosphere”), Johnstonsphere LLC (“Johnstonsphere”), Sustainable Energy Ltd. (“SEL”), and Blue Sphere Brabant B.V. (“BSB”), is focused on project integration in the clean energy production and waste to energy markets.

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. On February 17, 2010, the Company conducted a reverse merger, name change and forward split of its common stock, and in March 2010 current management took over operations, at which point the Company changed its business focus to become a project integrator in the clean energy production and waste to energy markets.

As of September 30, 2016, Johnstonsphere and BSB had not commenced operations.

On May 12, 2015 the Company formed Bluesphere Pavia (formerly called Bluesphere Italy S.r.l.), a subsidiary of Eastern, in order to acquire certain biogas plants located in Italy (see note 3 below).

BLUE SPHERE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

NOTE 3 – INVESTMENT IN BLUE SPHERE PAVIA

On August 18, 2015, the Company and two of its wholly-owned subsidiaries, Eastern and Bluesphere Pavia, entered into a Long Term Mezzanine Loan Agreement (the “Helios Loan Agreement”) with Helios Italy Bio-Gas 1 L.P. (“Helios”). Under the Helios Loan Agreement, Helios will make up to \$5,646,628 (€5,000,000) available to Bluesphere Pavia (the “Helios Loan”) to finance (a) ninety percent (90%) of the total required investment of the first four SVPs acquired, (b) eighty percent (80%) of the total required investment of up to three SVPs subsequently acquired, (c) certain broker fees incurred in connection with the acquisitions, and (d) any taxes associated with registration of an equity pledge agreement (as described below). Each financing of an SVP acquisition will be subject to specified conditions precedent and will constitute a separate loan under the Helios Loan Agreement. Subject to specified terms, representations and warranties, the Helios Loan Agreement provides that each loan thereunder will accrue interest at a rate of 14.5% per annum, paid quarterly. Helios will also be entitled to an annual operation fee, paid quarterly. The final payment for each loan will become due no later than the earlier of (a) thirteen and one half years from the date such loan was made available to Bluesphere Italy, and (b) the date that the Feed in Tariff license granted to the relevant SVP expires. Pursuant to the Helios Loan Agreement and an equity pledge agreement, Eastern Sphere pledged all its shares in Bluesphere Pavia to secure all loan amounts utilized under the Helios Loan Agreement.

On December 14, 2015 (“Closing Date”), and pursuant to a Share Purchase Agreement, dated May 14, 2015 (the “Share Purchase Agreement”), by and among the Company’s indirect wholly-owned subsidiary, Bluesphere Pavia, Volteo Energie S.p.A., Agriholding S.r.l., and Overland S.r.l. (collectively, the “Sellers”), Bluesphere Pavia completed the acquisitions of one hundred percent (100%) of the share capital of Agricerere S.r.l., Agrielektra S.r.l., Agrisorse S.r.l. and Gefa S.r.l. (each, an “SPV” and collectively, the “SPVs”) from the Sellers. Each SPV owns and operates an anaerobic digestion biogas plant in Italy for the production and sale of electricity to Gestore dei Servizi Energetici GSE, S.p.A., a state-owned company, pursuant to a power purchase agreement. Pursuant to the Italy Projects Agreement, the Company also issued a corporate guarantee to the Sellers, whereby the Company will secure the obligations of Bluesphere Pavia under the Italy Projects Agreement.

Pursuant to the Share Purchase Agreement, the Company to pay \$5,646,628 (€5,200,000) (the “Purchase Price”), subject to certain post-closing adjustments, to acquire the share capital of the SPVs. The Purchase Price for each SPV was determined based on a Base Line EBITDA guaranteed by the Sellers and an Equity IRR Target calculated on the Purchase Price of no less than twenty-five percent (25%). Fifty percent (50%) of the Purchase Price, adjusted for certain post-closing adjustments and closing costs, in the amount of \$2,143,181 (€1,952,858) was paid at closing, and the balance is due to the Sellers on the third anniversary of the closing date. The remaining fifty percent (50%) of the Purchase Price, prior to and after closing date, and any variation of EBITDA results in the 18 months following the closing date, will be promised by a note from each Seller, to be paid on the third anniversary of the closing, along

with interest on the unpaid balance due at an annual rate of two percent (2%).. The portion of the Purchase Price paid at closing was primarily financed by a loan of \$3,149,081 (€2,900,000) pursuant to the Helios Loan Agreement whereas the Company repaid \$404,000 (€365,303) during the nine months ended September 30, 2016.

BLUE SPHERE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

NOTE 3 – INVESTMENT IN BLUE SPHERE PAVIA (continued)

In accordance with a Framework EBITDA Guarantee Agreement, dated July 17, 2015 (the “EBITDA Agreement”), between the Company and Austep S.p.A. (“Austep”), Austep will operate, maintain and supervise each biogas plant owned by the SPVs. In addition, Austep guaranteed a monthly aggregate EBITDA of \$204,147 (€188,000) from the four SPVs for the initial six months following the acquisition, and thereafter Austep will guarantee an annual aggregate EBITDA of \$4,082,946 (€3,760,000) from the four SPVs. Pursuant to the terms of the agreements with Austep, the Company will receive the guaranteed levels of EBITDA and Austep will receive ninety percent (90%) of the revenue in excess of these levels.

The Company applied the equity method of accounting for those investments because the Framework EBITDA Guarantee Agreement between the Company and Austep whereas Austep operates, maintains and supervises each biogas plants prevents us from exercising a controlling influence over operating policies of the plants. Under this method, our equity investment is reflected as an investment in non-consolidated subsidiaries on our Condensed Balance Sheets and the net earnings or losses of the investments is reflected as equity in net earnings of non-consolidated companies on our Consolidated Statements of Operations.

NOTE 4 – CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited condensed consolidated financial statements as of September 30, 2016 and for the nine and 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 nine and three months ended September 30, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016.

The September 30, 2015 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, 2015.

BLUE SPHERE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

NOTE 5 – SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the annual financial statements of the Company as of September 30, 2015, are applied consistently in these financial statements except for the following:

a. Business Combinations and Goodwill

The Company accounts for its business combinations using the purchase method of accounting. Under this method, the Company allocates the purchase price to tangible and intangible assets acquired and liabilities assumed based on estimated fair values at the date of acquisition, with the excess of the purchase price amount being allocated to goodwill. Acquisition-related and integration costs associated to the business combination are expensed as incurred. Changes in estimates associated with future income tax assets after measurement period are recognized as income tax expense with prospective application to all business combinations regardless of the date of acquisition. Goodwill for each reporting unit is assessed for impairment at least annually, or when an event or circumstance occurs that more likely than not reduces the fair value of a reporting unit below its carrying amount. An impairment charge is recorded when the carrying amount of the reporting unit exceeds its fair value and is determined as the difference between the goodwill's carrying amount and its implied fair value.

b. Investment in non-consolidated and affiliated companies

Investments in non-consolidated and affiliated companies that are not controlled but over which the Company can exercise significant influence (generally, entities in which the Company holds approximately between 20% to 100% of the voting rights of the investee) are presented using the equity method of accounting. Profits on intercompany sales, not realized outside the Company, are eliminated. The Company discontinues applying the equity method when its investment (including advances and loans) is reduced to zero and the Company has not guaranteed obligations of the affiliate or otherwise committed to provide further financial support to the affiliate.

Investments in preferred shares, which are not in substance common stock, are recorded on a cost basis according to ASC 323-10-15-13, "Investments - Equity Method and Joint Ventures - In-substance Common Stock" and ASC 323-10-40-1, "Investment - Equity Method and Joint Ventures - Investee Capital Transactions".

A change in the Company's proportionate share of an investee's equity, resulting from issuance of common or in-substance common shares by the investee to third parties, is recorded as a gain or loss in the consolidated income statements in accordance with ASC 323-10-40-1.

Investments in non-marketable equity securities of entities in which the Company does not have control or the ability to exercise significant influence over their operation and financial policies, are recorded at cost (generally when the Company holds less than 20% of the voting rights).

Management evaluates investments in affiliated companies, partnerships and other non-marketable equity securities for evidence of other-than-temporary declines in value. Such evaluation is dependent on the specific facts and circumstances. Accordingly, in determining whether other-than-temporary declines exist, management evaluates various indicators for other-than-temporary declines and evaluates financial information (e.g. budgets, business plans, financial statements, etc.). During 2015 and 2014, no material impairment was recognized.

c. Intangible Assets

Intangible assets consist of non-monetary and separately identifiable assets, which can be controlled and are expected to generate future economic benefits. Such assets are recognized at acquisition and/or production cost, including directly attributable expenses to make the asset ready for use, net of accumulated amortization charges and any impairment losses.

The costs incurred internally to develop new services and platforms are considered intangible assets generated internally and are recognized as assets only if the following requirements are met:

1. the cost incurred for the development of the assets can be reliably measured;
2. the entity has the intention, the availability of financial resources, the ability to complete the assets and to use or sell them;

Capitalized development costs include only expenses incurred that can be directly attributed to the process of developing new products and services.

Intangible assets with a finite useful life are amortized on a straight-line basis over their useful lives and are tested for impairment when circumstances indicate that the carrying value may be impaired. The amortization period and the amortization method for intangible assets with a finite useful lives are reviewed at least at each reporting date.

BLUE SPHERE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

NOTE 5 – SIGNIFICANT ACCOUNTING POLICIES (continued)

Changes in expected useful lives, or in the way the future economic benefits will be generated by the assets, are either recognized through a change in the period or in the amortization method and are accounted for as changes in accounting estimates. The amortization charges for intangible assets with a finite useful life are classified in the statement of income, in the costs appropriate for the function of the related intangible assets.

Long-Lived Assets

d.

When events or changes in circumstances indicate that the carrying amount of long-lived assets, such as capital assets and intangible assets, may not be recoverable, undiscounted estimated cash flows are projected over their remaining term and compared to the carrying amount. To the extent that such projections indicate that future undiscounted cash flows are not sufficient to recover the carrying amounts of related assets, a charge is recorded to reduce the carrying amount to the projected future discounted cash flows.

NOTE 6 – GOING CONCERN

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As of September 30, 2016, the Company had approximately \$375,000 in cash and cash equivalents, approximately \$11,618,000 in negative working capital, a stockholders' deficit of approximately \$8,949,000 and an accumulated deficit of approximately \$52,114,000. Management anticipates their business will require substantial additional investments that have not yet been secured. Management is continuing in the process of fund raising in the private equity markets as the Company will need to finance future activities. Company's ability to continue as a going concern is dependent upon raising capital from financing transactions and revenue from operations. 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.

NOTE 7 – 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, 2015 was filed.

BLUE SPHERE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

NOTE 8 – COMMON SHARES

On January 26, 2016, the Company issued 1,000,000 shares of Common Stock, pursuant to a subscription agreement dated June 12, 2015.

On February 1, 2016 the Company issued 540,000 shares Common Stock to a consultant in respect of his consulting services for the Company. The Company has estimated the fair value of such shares, and recorded an expense of \$108,327.

In February 2016, the Company conducted an offering (the “February Offering”) consisting of (a) up to USD \$1,925,000 of the Company’s shares of Common Stock, priced at the closing price for shares of Common Stock, as reported on the OTCQB Venture Marketplace, on the trading day prior to the closing of the February Offering, and (b) 5-year warrants to purchase shares of Common Stock in an amount equal to 50% of the number of shares of Common Stock so purchased by the subscriber (the “February Warrants”, together with the shares of Common Stock subscribed for, the “February Securities”). The February Securities have been offered pursuant to subscription agreements with each investor (the “February Subscription Agreement”). In addition to other customary provisions, each February Subscription Agreement provides that the Company will use its reasonable commercial efforts to register all shares of Common Stock sold in the February Offering, including all shares of Common Stock underlying the February Warrants, within 60 days of the closing of the February Offering. The February Warrants are exercisable for 5 years from the date of issuance at \$0.10 per share, include an option by which the holder may exercise the February Warrant by means of a cashless exercise, and include customary weighted-average price adjustment and anti-dilution terms. On February 15, 2016, the Company completed the only closing of the February Offering, representing aggregate gross proceeds to the Company of \$1,925,000. In connection with the closing, the Company and subscribers entered into (a) February Subscription Agreements for, in the aggregate, 35,000,000 shares of Common Stock at \$0.055 per share, and (b) February Warrants to purchase, in the aggregate, up to 17,500,000 shares of Common Stock at an exercise price of \$0.10 per share. The warrants were accounted for as derivative liabilities. The Company has estimated the fair value of such warrants at a value of \$933,358 at the date of issuance and using the Black-Scholes option pricing model using the following assumptions:

	%
Dividend yield	0
Risk-free interest rate	1.20%
Expected term (years)	5

Volatility 203 %

BLUE SPHERE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

NOTE 8 – COMMON SHARES (continued)

The Company engaged Maxim Group LLC (“Maxim”) to assist in the February Offering. Pursuant to the terms of an engagement letter between Maxim and the Company, Maxim received commissions equal to 7% of the gross proceeds raised by Maxim in the February Offering, warrants to purchase, in the aggregate, up to 2,800,000 shares of Common Stock at an exercise price of \$0.0605 per share and to purchase, in the aggregate, up to 1,400,000 shares of Common Stock at an exercise price of \$0.11 per share. The Company has estimated the fair value of such warrants at a value of \$224,413 at the date of issuance and using the Black-Scholes option pricing model using the following assumptions:

	%
Dividend yield	0
Risk-free interest rate	1.20%
Expected term (years)	5
Volatility	203 %

On March 15, 2016, the Company issued 85,000 shares of Common Stock to a consultant in respect of his consulting services for the Company. The Company has estimated the fair value of such shares, and recorded an expense of \$5,685.

On April 13, 2016, the Company issued 1,000,000 shares of Common Stock to a consultant in consideration for corporate finance, investor communications and financial and investor public relations services. The Company has estimated the fair value of such shares, and recorded an expense of \$72,733 in second fiscal quarter of 2016 and \$10,267 in first fiscal quarter of 2016. On June 13, 2016 and per the consulting agreement the Company issued an additional 1,000,000 shares of common stock as a service bonus since the agreement was not terminated prior to June 9, 2016. The Company has estimated the fair value of such shares, and recorded an expense of \$89,000.

On April 13, 2016, the Company issued an aggregate of 875,000 shares of Common Stock to a consultant, pursuant to consulting agreements dated September 1, 2015 and March 1, 2016, in consideration for investor relations and communications services. The Company has estimated the fair value of such shares, and recorded an expense of \$42,467.

On May 18, 2016, a 1.5-year warrant to purchase shares of Common Stock, dated May 4, 2015, was exercised into 700,000 shares of Common Stock at an exercise price of \$0.058 per share, for total consideration of \$40,235.

On June 2, 2016, we issued 13,930,742 shares of our Common Stock in consideration of \$145,525 pursuant to all but one of the July 2015 Offering Subscription Agreements, with the issuance of the remaining 7,658,129 shares of our Common Stock currently in process.

On June 13, 2016 the Company issued 7,103,467 shares of Common Stock to several officers, directors, employees and/or consultants of the Company. All shares were issued pursuant to the Company's Global Share and Options Incentive Enhancement Plan (2014) (the "2014 Incentive Plan and the Company's Global Share Incentive Plan (2010)). The Company has estimated and recorded the fair value of such shares as an expense of \$632,208 which was recorded through the vesting periods.

On June 26, 2016 the Company issued 500,000 shares of Common Stock in order to complete its obligations under the Share Purchase Agreement from 2015.

On July 14, 2016 the Company cancelled 85,000 shares of Common Stock that were issued in error.

In June and July 2016, The Company conducted an offering (the “June Offering”) consisting of (a) up to USD \$3,000,000 of shares of Common Stock, priced at the closing price for shares of Common Stock, as reported on the OTCQB Venture Marketplace on the trading day prior to each respective closing of the June Offering, and (b) five-year warrants (the “June Warrants”, together with the shares of Common Stock subscribed for, the “June Securities”) to purchase shares of Common Stock in an amount equal to one hundred percent (100%) of the number of shares of Common Stock so purchased by the subscriber, with an exercise price equal to the per share price of the Common Stock or \$0.011 per share, whichever is greater. The June Securities were offered pursuant to subscription agreements with each subscriber (the “June Subscription Agreement”). In addition to other customary provisions, each June Subscription Agreement provides that the Company will use its reasonable commercial efforts to register all shares of Common Stock sold in the June Offering, including all shares of Common Stock underlying the June Warrants, within twenty (20) days of the final closing of the June Offering. Each June Subscription Agreement also provides that if, during the period beginning on the date of the first closing of the June Offering and ending on the six month anniversary thereof, the Company completes (a) a subsequent closing of the June Offering or (b) a public or private offering and sale of USD \$1,000,000 or more of Common Stock or warrants to purchase Common Stock, where such subsequent closing or offering, as applicable, provides for material deal terms and conditions more favorable than are contained in such June Subscription Agreement, then the June Subscription Agreement will be deemed modified to provide the applicable subscriber with the more favorable deal terms and conditions, and the Company will take all reasonable steps necessary to amend the June Securities and/or issue new securities to the applicable subscriber reflecting such more favorable material deal terms and conditions (the “June MFN Rights”). The June Warrants are exercisable for five years from the date of issuance, include an option by which the holder may exercise the June Warrant by means of a cashless exercise, and include customary weighted-average price adjustment and anti-dilution terms. On July 26, 2016, the Company completed closings of the June Offering, both such closings representing aggregate gross proceeds to the Company of USD \$1,370,000. In connection with both closings, the Company and subscribers entered into (a) June Subscription Agreements for 18,266,668 shares of Common Stock at \$0.075 per share, and (b) June Warrants to purchase up to 18,266,668 shares of Common Stock at an exercise price of \$0.11 per share. The subscriber in the July 7, 2016 closing received an adjustment to its June Securities pursuant to its June MFN Rights. The warrants were accounted for as derivative liabilities. The Company has estimated the fair value of such warrants at a value of \$1,140,462 at the date of issuance and using the Black-Scholes option pricing model using the following assumptions:

	%	
Dividend yield	0	%
Risk-free interest rate	1.00	%
Expected term (years)	5	
Volatility	147	%

The Company engaged Maxim Group LLC to assist in the June Offering. Pursuant to the terms of an engagement letter between Maxim and the Company, in connection with both closings, Maxim received commissions equal to 4.44% of the gross proceeds raised, warrants to purchase up to 928,000 shares of Common Stock at an exercise price of \$0.0825 per share, and warrants to purchase up to 928,000 shares of Common Stock at an exercise price of \$0.121 per share. The Company has estimated the fair value of such warrants at a value of \$116,561 at the date of issuance and using the Black-Scholes option pricing model using the following assumptions:

	%
Dividend yield	0 %
Risk-free interest rate	1.00%
Expected term (years)	5
Volatility	147 %

On August 7, 2016, the Company issued 143,000 shares of Common Stock, in consideration for past capital advisory services rendered to the Company. The Company has estimated the fair value of such shares, and recorded an expense of \$11,440.

On August 16, 2016 the Company issued 400,000 shares of Common Stock in satisfaction of debt of \$24,000.

On September 15, 2016, the Company issued 500,000 shares of Common Stock to a consultant in consideration for communications and investor relations services. The Company has estimated the fair value of such shares, and recorded an expense of \$19,983.

On September 15, 2016, the Company issued 500,000 shares of Common Stock to a consultant in consideration for communications and investor relations services. The Company has estimated the fair value of such shares, and recorded an expense of \$34,450.

NOTE 9 – WARRANTS, DEBENTURES AND NOTES

Senior Debentures offering

Beginning in November 2015, the Company conducted an offering (the “Debenture Offering”) of up to \$3,000,000 of the Company’s Senior Debentures (the “Debentures”) and warrants (the “Debenture Offering Warrants”, together with the “Debentures”, the “Debenture Offering Securities”) to purchase up to 8,000,000 shares of Common Stock, in proportion pro rata to each Subscriber’s subscription amount relative to the total offering amount, with 50% of the Debenture Offering Warrants exercisable at a price per share of \$0.05 and the other 50% of the Debenture Offering Warrants exercisable at price per share of \$0.075.

The Debentures bear interest at 11%, paid quarterly, and mature in two years. The Debentures are secured by a pledge agreement between the Company and each investor, whereby the Company pledged as collateral up to 49% of its shares of common stock in Eastern Sphere, Ltd., our wholly-owned subsidiary (the “Pledge Agreement”). The Pledge Agreement further provides that the Company’s obligations under the Debentures rank senior to all other indebtedness of Blue Sphere Corporation, but are subordinate to all indebtedness and liabilities of its subsidiaries and project-level operating entities. The Debenture Offering Warrants are exercisable for 5 years from the date of issuance, with 50% exercisable at \$0.05 per share and 50% exercisable at \$0.075 per share.

The November 2015 Warrants were accounted for as derivative liabilities. The Company has estimated the fair value of such warrants at a value of \$208,597 at the date of issuance using the Black-Scholes option pricing model using the following assumptions:

	%
Dividend yield	0 %
Risk-free interest rate	1.74 %
Expected term (years)	5
Volatility	202 %

The Debenture Offering Securities were offered pursuant to subscription agreements with each investor (the “Debenture Offering Subscription Agreement”). Pursuant to the Debenture Offering Subscription Agreements, the investors in the Debenture Offering shall have the right to collectively designate one observer or member to the Company’s Board of Directors.

On December 23, 2015, the Company completed the closing of the Debenture Offering and entered into Debenture Offering Subscription Agreements with investors representing aggregate gross proceeds to the Company of \$3,000,000.

The Company engaged Maxim Group LLC to assist in the Debenture Offering. Pursuant to the terms of an engagement letter between Maxim and the Company, Maxim received commissions equal to 7% of the gross proceeds raised by Maxim in the Debenture Offering and warrants to purchase, in the aggregate, up to 4,480,000 shares of Common Stock at an exercise price of \$0.06875 per share. The Company has estimated the fair value of such warrants at a value of \$116,599 at the date of issuance using the Black-Scholes option pricing model using the following assumptions:

	%
Dividend yield	0 %
Risk-free interest rate	1.74 %
Expected term (years)	5
Volatility	202 %

On February 3, 2016, the Company issued 3-year warrants to purchase up to 1,500,000 shares of Company's Common Stock at an exercise price of \$0.06 per share, in full satisfaction of certain obligations of the Company.

The Company has estimated the fair value of such warrants at a value of \$87,331 at the date of issuance using the Black-Scholes option pricing model using the following assumptions:

	%
Dividend yield	0 %
Risk-free interest rate	1.2 %
Expected term (years)	3
Volatility	203 %

In connection with the June Offering, the Company issued Warrants to purchase up to 18,266,668 shares of Common Stock at an exercise price of \$0.11 per share. The warrants were accounted for as derivative liabilities. The Company has estimated the fair value of such warrants at a value of \$1,140,462 at the date of issuance and using the Black-Scholes option pricing model using the following assumptions:

	%
Dividend yield	0 %
Risk-free interest rate	1.00 %
Expected term (years)	5
Volatility	147 %

In connection with the June Offering, the Company engaged Maxim Group LLC to assist in the June Offering. Pursuant to the terms of an engagement letter between Maxim and the Company, Maxim received warrants to purchase up to 928,000 shares of Common Stock at an exercise price of \$0.0825 per share, and warrants to purchase

up to 928,000 shares of Common Stock at an exercise price of \$0.121 per share. The Company has estimated the fair value of such warrants at a value of \$116,561 at the date of issuance and using the Black-Scholes option pricing model using the following assumptions:

	%
Dividend yield	0 %
Risk-free interest rate	1.00 %
Expected term (years)	5
Volatility	147 %

Changes in the fair value of the warrants are recorded as interest expenses.

NOTE 10 – SUBSEQUENT EVENTS

On October 25, 2016, the Company completed a private placement of its securities to JMJ Financial, an accredited investor. Pursuant to the financing, the Company entered into a Securities Purchase Agreement with the investor thereby agreeing to issue shares of Common Stock, notes, and warrants to purchase shares of Common Stock, in exchange for USD \$500,000 paid at closing and an additional USD \$250,000 in guaranteed financing upon the achievement of certain milestones, as well as up to an additional USD \$250,000 in financing upon the mutual agreement of the Investor and the Company.

Pursuant to the terms of such financing, the Company agreed to issue to the investor (i) restricted shares of Common Stock equal to twenty-five percent (25%) of the note principal paid to the Company by the Investor, subject to certain adjustments, (ii) a six (6) month promissory note covering the note principal plus an amount equal to approximately five percent (5%) of the actual note principal, in total USD \$1,053,000, and (iii) a five (5) year warrant to purchase 6,666,666 shares of Common Stock with an aggregate exercise amount of USD \$500,000.

On November 18, 2016, the Charlotte, NC Waste to Energy Anaerobic Digester 5.2 MW Plant (the “Facility”) commenced commercial operations and started to provide its output to Duke Energy pursuant to the power purchase agreement with Duke Energy. The Facility will now enter the mechanical completion and ramp-up phase of the project. The commencement of the commercial operations includes the gradual intake of waste from the Facility’s feedstock suppliers, increasing the parasitic load to the digesters, completing the waste-water-treatment resources and completing all other mechanical features needed for the Facility to operate at full capacity. The Company estimates that this project will be fully completed by the end of the first quarter of 2017.

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

You should read the following discussion and analysis in conjunction with our unaudited condensed consolidated financial statements and related notes contained in Part I, Item 1 of this Quarterly Report.

Note Regarding Forward-Looking Statements

This 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 “could” or the 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 our projects, (iii) uncertainties regarding the market for and value of carbon credits, renewable energy 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.

Company Overview

Summary of Current Operations

We are an international Independent Power Producer (IPP) that is globally active in the clean energy production and waste-to-energy markets. We are becoming a key player in these rapidly growing markets by developing or acquiring projects with clean energy technologies, including but not limited to waste-to-energy facilities that generate clean energy, such as electricity, natural gas, heat, compost and other by-products. These markets provide tremendous opportunity, insofar as there is a virtually endless supply of waste and organic material that can be used to generate power and valuable by-products. In particular, the disposal of organic material to landfills in most parts of the world is a costly problem with environmentally-damaging consequences. We seek to offer a cost-effective, environmentally-safe alternative.

We are currently developing or operating, as applicable, the following projects:

United States (Developing)

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

Italy (Operating)

- Soc. agr. AGRICERERE srl – Tromello (Pavia) 999 KW Plant
- Soc. agr. AGRIELEKTRA srl – Alagna (Pavia) 999 KW Plant
- Soc. agr. AGRISORSE srl - Garlasco (Pavia) 999 KW Plant
- Soc. agr. GEFA srl – Dorno (Pavia) 999 KW Plant

We have also entered into nonbinding letters of intent to acquire additional biogas facilities in Italy and construct and develop waste-to-energy facilities in the Netherlands, and we continue to evaluate a pipeline of similar projects in a less mature phase.

Results of Operations

General

On December 14, 2015, our wholly-owned subsidiary, Bluesphere Pavia completed the acquisitions of one hundred percent (100%) of the share capital of Agricerere S.r.l., Agrielektra S.r.l., Agrisorse S.r.l. and Gefa S.r.l. (each, an “SPV” and collectively, the “SPVs”). Each SPV owns and operates an anaerobic digestion biogas plant in Italy for the production and sale of electricity to Gestore del Servizi Energetici GSE, S.p.A., a state-owned company, pursuant to a power purchase agreement. Our results of operation and have been significantly affected by this transaction. The Company applied the equity method of accounting for those investments because the Framework EBITDA Guarantee Agreement between the Company and Austep whereas Austep operates, maintains and supervises each biogas plants prevents us from exercising a controlling influence over operating policies of the plants. Under this method, our equity investment is reflected as an investment in non-consolidated subsidiaries on our Condensed Balance Sheets and the net earnings or losses of the investments is reflected as equity in net earnings of non-consolidated companies on our Consolidated Statements of Operations.

Deferred Revenue

\$1,481,900 of development fees and reimbursements for the North Carolina and Rhode Island projects are recorded as deferred revenue. Upon successful completion of the projects, this amount will be recorded as revenue.

Results of Operations – For the Three Months Ended September 30, 2016 Compared to the Three Months Ended September 30, 2015

General and Administrative Expenses

General and administrative expenses for the three-month period ended September 30, 2016 were \$1,682,000 as compared to \$1,054,000 for the three-month period ended September 30, 2015.

Net Loss

We incurred a net loss of \$629,000 for the three-month period ended September 30, 2016, as compared to a net loss of \$1,204,000 for the three-month period ended September 30, 2015. The decrease in net loss is mainly attributable to a decrease in financial expenses and decrease in increase in equity losses in non-consolidated subsidiaries.

Results of Operations – For the Nine Months Ended September 30, 2016 Compared to the Nine Months Ended September 30, 2015

General and Administrative Expenses

General and administrative expenses for the nine-month period ended September 30, 2016 were \$6,287,000 as compared to \$4,504,000 for the nine-month period ended September 30, 2015.

Net Loss

We incurred a net loss of \$7,422,000 for the nine-month period ended September 30, 2016, as compared to a net loss of \$6,148,000 for the nine-month period ended September 30, 2015. The increase in net loss is mainly attributable to increase in general and administrative expenses and increase in equity losses in non-consolidated subsidiaries.

Inflation and Seasonality

In management's opinion, our results of operations have not been materially affected by inflation or seasonality, and management does not expect that inflation risk or seasonality would cause material impact on our operations in the future.

Liquidity and Capital Resources

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

As of September 30, 2016, we had cash and cash equivalents of \$375,000 as compared to \$161,000 as of September 30, 2015. As of September 30, 2016, we had a working capital deficit of \$11,618,000, as compared to \$7,542,000 as of September 30, 2015. The increase in our working capital deficit is mainly attributable to the increase in our deferred revenues from joint ventures in the amount of \$4,302,000, the increase in our current maturities of long term

loans in the amount of \$315,000, the increase in our accounts payables in the amount of \$759,000 and the increase in our other accounts payable and liabilities in the amount of \$565,000. The increase in our working capital deficit was mitigated by an increase in our other current assets in the amount of \$1,651,000.

Net cash used in operating activities was \$4,181,000 for the nine-month period ended September 30, 2016, as compared to cash from operating activities of \$108,000 for the nine-month period ended September 30, 2015.

Net cash used in investing activities was \$60,000 for the nine-month period ended September 30, 2016, as compared to net cash provided by investing activities of \$23,000 for the nine-month period ended September 30, 2015.

Net cash provided by financing activities was approximately \$2,728,000 for the nine-month period ended September 30, 2016, as compared to approximately \$128,000 provided by financing activities for the nine-month period ended September 30, 2015.

We have principally financed our operations through the sale of our Common Stock and warrants and the issuance of convertible debt, including the Debenture Offering, February Offering, June Offering and the October Financing described in the notes to the condensed consolidated financial statements included in this quarterly report.

Change in Fiscal Year

As previously reported, on January 24, 2016, the Company's Board of Directors changed the Company's fiscal year end from September 30 to December 31, effective January 1, 2016. As a result of this change, the Company filed a Transition Report on Form 10-Q for the three-month period ended December 31, 2015, and the Company will file audited financials for the three-month period ended December 31, 2015 with its Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

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, 2015 was filed. The significant accounting policies applied in the annual financial statements of the Company as of September 30, 2015 are applied consistently in these financial statements, except for the following:

a. Business Combinations and Goodwill

The Company accounts for its business combinations using the purchase method of accounting. Under this method, the Company allocates the purchase price to tangible and intangible assets acquired and liabilities assumed based on estimated fair values at the date of acquisition, with the excess of the purchase price amount being allocated to goodwill.

Acquisition-related and integration costs associated with the business combination are expensed as incurred. Changes in estimates associated with future income tax assets after measurement period are recognized as income tax expense with prospective application to all business combinations regardless of the date of acquisition.

Goodwill for each reporting unit is assessed for impairment at least annually, or when an event or circumstance occurs that more likely than not reduces the fair value of a reporting unit below its carrying amount. An impairment charge is recorded when the carrying amount of the reporting unit exceeds its fair value and is determined as the difference between the goodwill's carrying amount and its implied fair value.

b. Investment in non-consolidated and affiliated companies

Investments in non-consolidated and affiliated companies that are not controlled but over which the Company can exercise significant influence (generally, entities in which the Company holds approximately between 20% to 100% of the voting rights of the investee) are presented using the equity method of accounting. Profits on intercompany sales, not realized outside the Company, are eliminated. The Company discontinues applying the equity method when its investment (including advances and loans) is reduced to zero and the Company has not guaranteed obligations of the affiliate or otherwise committed to provide further financial support to the affiliate.

Investments in preferred shares, which are not in substance common stock, are recorded on a cost basis according to ASC 323-10-15-13, "Investments - Equity Method and Joint Ventures - In-substance Common Stock" and ASC 323-10-40-1, "Investment -Equity Method and Joint Ventures - Investee Capital Transactions".

A change in the Company's proportionate share of an investee's equity, resulting from issuance of common or in-substance common shares by the investee to third parties, is recorded as a gain or loss in the consolidated income statements in accordance with ASC 323-10-40-1.

Investments in non-marketable equity securities of entities in which the Company does not have control or the ability to exercise significant influence over their operation and financial policies, are recorded at cost (generally when the Company holds less than 20% of the voting rights).

Management evaluates investments in affiliated companies, partnerships and other non-marketable equity securities for evidence of other-than-temporary declines in value. Such evaluation is dependent on the specific facts and circumstances. Accordingly, in determining whether other-than-temporary declines exist, management evaluates various indicators for other-than-temporary declines and evaluates financial information (e.g. budgets, business plans, financial statements, etc.). During 2015 and 2014, no material impairment was recognized.

c. Intangible Assets

Intangible assets consist of non-monetary and separately identifiable assets that can be controlled and are expected to generate future economic benefits. Such assets are recognized at acquisition and/or production cost, including directly attributable expenses to make the asset ready for use, net of accumulated amortization charges and any impairment losses. Intangible assets with a finite useful life are amortized on a straight-line basis over their useful lives and are tested for impairment when circumstances indicate that the carrying value may be impaired. The amortization period and the amortization method for intangible assets with a finite useful lives are reviewed at least at each reporting date.

d. Long-Lived Assets

When events or changes in circumstances indicate that the carrying amount of long-lived assets, such as capital assets and intangible assets, may not be recoverable, undiscounted estimated cash flows are projected over their remaining term and compared to the carrying amount. To the extent that such projections indicate that future undiscounted cash flows are not sufficient to recover the carrying amounts of related assets, a charge is recorded to reduce the carrying amount to the projected future discounted cash flows.

Off-Balance Sheet Arrangements

As at September 30, 2016, we had no off-balance sheet arrangements of any nature.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

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

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 periods 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 three months ended September 30, 2016. Based upon that evaluation, the Company's CEO and CFO concluded that, as of the end of such period, the Company's disclosure controls and procedures were not effective in ensuring that (i) information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Management is in the process of determining how best to change our current system and implement a more effective system to ensure that information required to be disclosed has been recorded, processed, summarized and reported accurately. Our management acknowledges the existence of this issue, and intends to develop procedures to address it

to the extent possible given limitations in financial and human resources in and to remediate all the material weaknesses by the end of the fiscal year ending December 31, 2016.

Changes in Internal Controls

Our management, with the participation of our CEO and CFO, performed an evaluation to determine whether any change in our internal controls over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) occurred during the three-month period ended September 30, 2016. Based on that evaluation, our CEO and our CFO concluded that changes occurred in the Company's internal controls over financial reporting during the three-month period ended September 30, 2016 which have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting. Specifically, the Company consolidated the roles and responsibilities of two individuals providing CFO services into one full-time CFO position.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

On October 22, 2016, the law firm of JS Barkats PLLC filed a complaint against the Company and Shlomo Palas, the Company's Chief Executive Officer, seeking allegedly unpaid legal fees for services rendered from June 9, 2011 through April 23, 2012 in the amount of USD \$428,964.70, plus interest for a total of USD \$652,000 (the "Barkats Litigation"). The Barkats Litigation was filed as JS Barkats PLLC v. Blue Sphere Corporation and Shlomo Palas with the Supreme Court of the State of New York for the County of New York (the "New York Court"), Index No. 655600/2016. On October 26, 2016, without notice to the Company or Mr. Palas or an opportunity to be heard, the New York Court issued a Temporary Restraining Order (the "TRO") in favor JS Barkats PLLC, prohibiting the Company and Mr. Palas from "transferring or dissipating their assets ... to the extent of \$652,000", pending the return date of JS Barkats PLLC's asset attachment motion, due November 17, 2016. On October 31, 2016, the Company removed the Barkats Litigation to federal court, filed as JS Barkats PLLC v. Blue Sphere Corporation and Shlomo Palas with the United States District Court, Southern District Court of New York, Docket No. 1:16-cv-08404. The Company terminated the services of JS Barkats LLC in 2012 and believes the claims brought by JS Barkats PLLC are without merit, that the TRO was improvidently granted, and that JS Barkats PLLC misrepresented, mischaracterized and omitted material facts and the law in seeking the TRO. The Company intends to vigorously defend against the Barkats Litigation, the TRO and any other attempts to attach the assets of the Company.

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.

Unregistered sales of equity securities

On August 7, 2016, we issued 143,000 shares of Common Stock, in consideration for past capital advisory services rendered to the Company.

On August 16, 2016, we issued 400,000 shares of Common Stock, in satisfaction of debt of \$24,000.

On September 15, 2016, we issued 500,000 shares of Common Stock to a consultant, pursuant to a consulting agreement dated March 1, 2016, in consideration for investor relations and communications services.

On September 15, 2016, we issued 500,000 shares of Common Stock to a consultant, pursuant to a consulting agreement dated September 1, 2016, in consideration for investor relations and communications services.

The transactions described above were exempt from registration under the Securities Act of 1933, as amended (the “Securities Act”), as transactions not involving a public offering.

Issuer Purchases of Equity Securities

On June 17, 2015, our Board approved a share repurchase program (the “Share Repurchase Program”). Under the Share Repurchase Program, we are authorized to repurchase up to \$500,000 worth of Common Stock. We may purchase shares of our Common Stock on the open market or through privately negotiated transactions from time-to-time and in accordance with applicable laws, rules and regulations. We are not obligated to make any purchases, including at any specific time or in any particular situation. The Share Repurchase Program may be limited or terminated at any time without prior notice.

Our share repurchase activity during the three months ended September 30, 2016 is presented in the table below.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Share Repurchase Program
May 1 to May 31	0	—	0	\$471,672
June 1 to June 30	0	—	0	\$471,672
July 1 to September 30	0	—	0	\$471,672
Total:	0	—	0	\$471,672

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

ITEM 5. OTHER INFORMATION.

As previously reported on the Company's Current Report on Form 8-K filed with the SEC on October 31, 2016, on October 25, 2016, the Company completed a private placement of its securities (the "October Financing") to JMJ Financial, a Nevada sole proprietorship and accredited investor (the "Investor"). Pursuant to the October Financing, the Company entered into a Securities Purchase Agreement (the "SPA") with the Investor thereby agreeing to issue shares of Common Stock, notes and warrants, in exchange for up to USD \$1,000,000 (the "Note Principal") in accordance with the following payment schedule: USD \$500,000 paid at closing, USD \$250,000 in guaranteed financing upon the achievement of certain milestones, and up to an additional USD \$250,000 in financing upon the mutual agreement of the Investor and the Company.

Pursuant to the terms of the October Financing, the Company agreed to issue to the Investor (i) restricted shares of Common Stock equal to twenty-five percent (25%) of the Note Principal paid to the Company by the Investor, subject to certain adjustments (the "Shares"), (ii) a six (6) month promissory note covering the Note Principal plus an amount equal to approximately five percent (5%) of the actual Note Principal, in total USD \$1,053,000 (the "Note"), and (iii) a five (5) year warrant to purchase 6,666,666 shares of Common Stock with an aggregate exercise amount of USD \$500,000 (the "Warrant").

The foregoing description of the SPA, the Note and the Warrant do not purport to be complete and are qualified in their entirety by reference to the description and full text of the SPA, the Note and the Warrant filed as Exhibit 10.1, 10.2 and 10.3 to the Company's Current Report on Form 8-K filed with the SEC on October 31, 2016.

ITEM 6. EXHIBITS.

No.	Description
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3.1	Amended and Restated Articles of Incorporation, dated November 22, 2013 (1)
3.2	Amended and Restated Bylaws, dated June 17, 2015 (2)
10.1	Form of Securities Purchase Agreement, Promissory Note and Common Stock Purchase Warrant issued in connection with the October Financing (3)
31.1	<u>Rule 13a-14(a) / 15d-14(a) Certification of Chief Executive Officer</u>
31.2	<u>Rule 13a-14(a) / 15d-14(a) Certification of Chief Financial Officer</u>
32.1	<u>Section 1350 Certification of Chief Executive Officer</u>
32.2	<u>Section 1350 Certification of Chief Financial Officer</u>
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

(1) Incorporated by reference to our Current Report on Form 8-K filed with the SEC on December 3, 2013.

(2) Incorporated by reference to our Current Report on Form 8-K filed with the SEC on June 17, 2015.

(3) Incorporated by reference to our Current Report on Form 8-K filed with the SEC on October 31, 2016.

*Indicates management contract or compensatory plan or arrangement.

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 CORPORATION

By: /s/ Shlomi Palas
President, Chief Executive Officer, Secretary and Director
(Principal Executive Officer)
Date: November 21, 2016

By: /s/ Ran Daniel
Chief Financial Officer
(Principal Accounting Officer and Principal Financial Officer)
Date: November 21, 2016