XCORPOREAL, INC.
Form 10QSB/A
April 16, 2007

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

**FORM 10-QSB/A**
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended **September 30, 2006**
Commission file number **001-31608**

**XCORPOREAL, INC.**
(Exact name of small business issuer as specified in its charter)

| **Delaware** | **98-0349685** |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (IRS Employer Identification Number) |

**11150 Santa Monica Blvd., Suite 340 Los Angeles, California 90025**
(Address of principal executive offices)
**(310) 738-5138**
(Issuer s telephone number)
**11400 W. Olympic Blvd., Suite 200**
**Los Angeles, California 90064**
(Former name, former address and former fiscal year, if changed since last report)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 þ No o

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

State the number of shares outstanding of each of the issuer s classes of common equity, as of the latest practicable date.

| **Class** | **Outstanding as of April 9, 2007** |
|---|---|
| Common Stock, $0.0001 par value | 14,200,050 shares |

Transitional Small Business Disclosure Format (Check one): Yes o No þ

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**Explanatory Note Regarding Amendment**

We are filing this amendment to our quarterly report on Form 10-QSB for the quarterly period ended September 30, 2006, originally filed November 17, 2006, because we have concluded that:

The August 31, 2006 transaction by which we ceased to be a shell corporation should be presented as a recapitalization of the accounting acquirer, and the License Agreement should be recorded at predecessor basis;

The assumptions used in estimating the fair value of warrants issued to consultants should be revised, and the resulting increase in fair value expensed accordingly;

The accrued liabilities should be increased to account for research, development and other expenses incurred pursuant to the License Agreement; and

The calculation of the weighted average number of share outstanding used in the calculation of the basic and diluted loss per share should be revised, resulting in an increase in basic and diluted loss per share.

Accordingly, we are restating our unaudited interim financial statements for the quarterly period ended September 30, 2006, and amending the related footnotes, management s discussion and analysis or plan of operation, controls and procedures, and other information. This amendment also reflects subsequent events occurring after the filing of the quarterly report as originally filed.

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## PART I FINANCIAL INFORMATION

**ITEM 1. Financial Statements.**

**XCORPOREAL, INC.**
**(formerly Pacific Spirit Inc.)**
**(a Development Stage Company)**
**INTERIM BALANCE SHEETS**
**(Unaudited)**

| | September 30, 2006 (restated) | December 31, 2005 |
|---|---|---|
| **ASSETS** | | |
| Other Assets | $ 1,000 | $ |
| Total Assets | $ 1,000 | $ |
| **LIABILITIES** | | |
| Current | | |
| Accounts payable and accrued liabilities | 1,062,473 | 18,330 |
| Due to related party | | 34,227 |
| Total Current Liabilities | 1,062,473 | 52,557 |
| **STOCKHOLDERS EQUITY (DEFICIENCY)** | | |
| Preferred stock, $0.0001 par value, 10,000,000 shares authorized, none outstanding | | |
| Common stock, $0.0001 par value, 100,000,000 shares authorized, 10,000,000 and 3,820,000 outstanding on September 30, 2006 and December 31, 2005, respectively | 1,000 | 382 |
| Additional paid-in capital | 2,318,231 | 90,618 |
| Deficit accumulated during development stage | (3,380,704) | (143,557) |
| Total Stockholders Deficiency | (1,061,473) | (52,557) |
| Total Liabilities & Stockholders Deficiency | $ 1,000 | $ |

See accompanying notes to interim financial statements.

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**XCORPOREAL, INC.**
**(formerly Pacific Spirit Inc.)**
**(a Development Stage Company)**
**STATEMENTS OF OPERATIONS**
**(Unaudited)**

| | Three Months Ended September 30, | | Nine Months Ended September 30, | | May 4, 2001 (Date of Inception) to September 30, |
|---|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 | 2006 |
| | (restated) | | (restated) | | (restated) |
| Operating Expenses: | | | | | |
| Selling, general and administrative | $ 2,307,727 | $ 4,558 | $ 2,319,517 | $ 25,764 | $ 2,463,174 |
| Research and development | 917,630 | | 917,630 | | 917,630 |
| Loss before Other Income/(Expense) and Income Tax | (3,225,357) | (4,558) | (3,237,147) | (25,764) | (3,380,804) |
| Interest Income | | | | | 100 |
| Loss before income taxes | (3,225,357) | (4,558) | (3,237,147) | (25,764) | (3,380,704) |
| Income taxes | | | | | |
| Net Loss | $ (3,225,357) | $ (4,558) | $ (3,237,147) | $ (25,764) | $ (3,380,704) |
| Basic and diluted loss per share | $ (0.55) | $ (0.00) | $ (0.72) | $ (0.01) | |
| Weighted average number of shares outstanding | 5,835,217 | 3,820,000 | 4,499,121 | 3,820,000 | |

See accompanying notes to interim financial statements.

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**XCORPOREAL, INC.**
**(formerly Pacific Spirit Inc.)**
**(a Development Stage Company)**
**INTERIM STATEMENTS OF CASH FLOWS**
**(Unaudited)**

| | Nine months ended September 30, | | May 4, 2001 (Date of Inception) to September 30, |
|---|---|---|---|
| | **2006** (restated) | **2005** | **2006** (restated) |
| Cash flows used in operating activities | | | |
| Net loss for the period | $ (3,237,147) | $ (25,764) | $ (3,380,704) |
| Adjustment for item not involving cash: | | | |
| Consulting fees | 2,162,611 | | 2,162,611 |
| Changes in non-cash working capital items related to operations | | | |
| Prepaid expenses | | 600 | |
| Accounts payable and accrued liabilities | 1,044,143 | 11,026 | 1,062,473 |
| | (30,393) | (14,138) | (155,620) |
| Cash flows from financing activities | | | |
| Capital stock issued | | | 91,000 |
| Advance from a related party | 30,393 | 13,774 | 64,620 |
| | 30,393 | 13,774 | 155,620 |
| Decrease in cash during the period | | (364) | |
| Cash, beginning of the period | | 576 | |
| Cash, end of the period | $ | $ 212 | $ |
| Supplemental disclosure of cash flow information; cash paid for: | | | |
| Interest | $ | $ | $ |
| Income taxes | $ | $ | $ |
| Non-cash Transactions Note 10 | | | |

See accompanying notes to interim financial statements.

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**XCORPOREAL, INC.**
**(formerly Pacific Spirit Inc.)**
**(a Development Stage Company)**
**INTERIM STATEMENTS OF STOCKHOLDERS EQUITY (DEFICIT)**
**for the period May 4, 2001 (Date of Inception) to September 30, 2006**
**(Unaudited)**
**(restated)**

| | (Note 10) Common Shares | | Additional Paid-in | Deficit Accumulated During Development | |
|---|---|---|---|---|---|
| | Number | Par Value | Capital | Stage | Total |
| Capital stock issued for cash at $0.01 | 2,500,000 | $ 250 | $ 24,750 | $ | $ 25,000 |
| Net loss for the period | | | | (40,255) | (40,255) |
| Balance as at December 31, 2001 | 2,500,000 | 250 | 24,750 | (40,255) | (15,255) |
| Capital stock issued for cash at $0.05 | 1,320,000 | 132 | 65,868 | | 66,000 |
| Net loss for the year | | | | (31,249) | (31,249) |
| Balance as at December 31, 2002 | 3,820,000 | 382 | 90,618 | (71,504) | 19,496 |
| Net loss for the year | | | | (12,962) | (12,962) |
| Balance as at December 2003 | 3,820,000 | 382 | 90,618 | (84,466) | 6,534 |
| Net loss for the year | | | | (23,338) | (23,338) |
| Balance as at December 31, 2004 | 3,820,000 | 382 | 90,618 | (107,804) | (16,804) |
| Net loss for the year | | | | (35,753) | (35,753) |
| Balance as at December 31, 2005 | 3,820,000 | 382 | 90,618 | (143,557) | (52,557) |
| Capital stock issued for a licence at $0.00 | 9,600,000 | 960 | 40 | | 1,000 |
| Capital stock cancelled | (3,420,000) | (342) | 342 | | |
| Warrants granted for consulting fees | | | 2,162,611 | | 2,162,611 |
| Forgiveness of debt Note 6 | | | 64,620 | | 64,620 |
| Net loss for the period | | | | (3,237,147) | (3,237,147) |
| Balance as at September 30, 2006 | 10,000,000 | $ 1,000 | $ 2,318,231 | $ (3,380,704) | $ (1,061,473) |

See accompanying notes to interim financial statements.

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**XCORPOREAL, INC.**
**(formerly Pacific Spirit Inc.)**
**(a Development Stage Company)**
**NOTES TO THE INTERIM FINANCIAL STATEMENTS**
**September 30, 2006**
**(Unaudited)**

**Note 1 Interim Reporting and Restatement**

As described in Notes 7 and 9 below, we are restating the accompanying unaudited interim financial statements to present the August 31, 2006 transaction by which we ceased to be a shell corporation as a recapitalization of the accounting acquirer, and record the License Agreement at predecessor basis, and to revise the assumptions used in estimating the fair value of warrants issued to consultants. In addition, we have increased accrued liabilities to account for certain research, development and other expenses incurred through September 30, 2006 and revised the calculation of the weighted average number of share outstanding used in the calculation of the basic and diluted loss per share which resulted in an increase in basic and diluted loss per share.

The following financial statements reflect the as reported figures from the Form 10-Q filed on November 17, 2006 and the restated figures:

| | Interim Balance Sheet (Unaudited) September 30, 2006 | |
|---|---|---|
| | as reported | restated |
| Other Assets | $ 9,750,000 | $ 1,000 |
| Total Assets | $ 9,750,000 | $ 1,000 |
| Total Liabilities | 152,240 | 1,062,473 |
| Common stock | 1,000 | 1,000 |
| Additional paid-in capital | 9,819,620 | 2,318,231 |
| Deficit accumulated during the development stage | (222,860) | (3,380,704) |
| Total Stockholders Deficiency | 9,597,760 | (1,061,473) |
| Total Liabilities & Stockholders Deficiency | $ 9,750,000 | $ 1,000 |

| | Interim Statements of Operations (Unaudited) | | | | | |
|---|---|---|---|---|---|---|
| | Three months ended September 30, 2006 | | Nine months ended September 30, 2006 | | May 4, 2001 (Date of Inception) to September 30, 2006 | |
| | as reported | restated | as reported | restated | as reported | restated |
| Expenses | | | | | | |
| Third-party research and development expenses | $ | $ 896,797 | $ | $ 896,797 | $ | $ 896,797 |
| Legal Fees | | 142,603 | | 142,603 | | 175,809 |
| Other | 67,513 | 2,185,956 | 79,303 | 2,197,746 | 222,960 | 2,308,197 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Loss before interest income | (67,513) | (3,225,357) | (79,303) | (3,237,147) | (222,960) | (3,380,804) |
| Interest income | | | | | 100 | 100 |
| Net loss for the period | $ (67,513) | $ (3,225,357) | $ (79,303) | $ (3,237,147) | $ (223,060) | $ (3,380,704) |
| Basic and diluted loss per share | $ (0.02) | $ (0.55) | $ (0.02) | $ (0.72) | | |
| Weighted average number of shares outstanding | 4,374,348 | 5,835,217 | 4,006,813 | 4,499,121 | | |

Interim Statements of Cash Flows
(Unaudited)

| | Nine months ended September 30, 2006 | | May 4, 2001 (Date of Inception) to September 30, 2006 | |
|---|---|---|---|---|
| | as reported | restated | as reported | restated |
| Cash flows used in operating activities | $ 150,012 | $ (30,393) | $ 24,773 | $ (155,620) |
| Cash flows from investing activity | (150,000) | | (150,000) | |
| Cash flows from financing activities | (12) | 30,393 | 125,227 | 155,620 |
| Decrease in cash during the period | | | | |
| Cash, beginning of the period | | | | |
| Cash, end of the period | $ | $ | $ | $ |

Interim Statement of Stockholders Equity (Deficit)

| | Common Stock | | Additional Paid-in | Deficit Accumulated During Development | |
|---|---|---|---|---|---|
| | Number | Par Value | Capital | Stage | Total |
| Capital stock issued for a license (as reported) | 9,600,000 | $ 960 | $ 9,599,040 | $ | $ 9,600,000 |
| Capital stock issued for a license (restated) | 9,600,000 | $ 960 | $ 40 | $ | $ 1,000 |
| Warrants granted for consulting fees (as reported) | | $ | $ 65,000 | $ | $ 65,000 |
| Warrants granted for consulting fees (restated) | | $ | $ 2,162,611 | $ | $ 2,162,611 |

| | | | | | |
|---|---|---|---|---|---|
| Net loss for the period (as reported) | | $ | $ | $ (79,303) | $ (79,303) |
| Net loss for the period (restated) | | $ | $ | $ (3,237,147) | $ (3,237,147) |
| Balance as at September 30, 2006 (as reported) | 10,000,000 | $ 1,000 | $ 9,819,620 | $ (222,860) | $ 9,597,760 |
| Balance as at September 30, 2006 (restated) | 10,000,000 | $ 1,000 | $ 2,318,231 | $ (3,380,704) | $ (1,061,473) |

While information presented in the accompanying interim financial statements is unaudited, it includes all adjustments, which are, in the opinion of management, necessary to present fairly the financial position, results of operations and cash flows for the interim period presented. All adjustments are of a normal recurring nature. It is suggested that these interim financial statements be read in conjunction with our December 31, 2005 financial statements.

The results of operations for the period ended September 30, 2006, are not necessarily indicative of the results that can be expected for the year ended December 31, 2006.

**Note 2 Nature and Continuance of Operations**

On August 31, 2006, we changed our name to Xcorporeal, Inc. and thereafter acquired the rights to our congestive heart failure treatment products, Wearable Artificial Kidney, and other medical devices. As a result, we have become a development stage company focused on researching, developing and commercializing technology and products related to the treatment of kidney failure and congestive heart failure.

These financial statements have been prepared in accordance with generally accepted accounting principles applicable to a going concern, which assume that we will be able to meet our obligations and continue our operations for our next twelve months. Realization values may be substantially different from carrying values as shown and these financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should we be unable to continue as a going concern.

At September 30, 2006 we have not achieved profitable operations, have accumulated losses of $3,380,704 since our inception, have a working capital deficiency of $1,061,473, have no available cash and expect to incur further losses in the development of our business, all of which cast substantial doubt about our ability to continue as a going concern. Our ability to continue as a going concern is dependent upon our ability to generate future profitable operations and to obtain the necessary financing to meet our obligations and repay our liabilities arising from normal business operations when they come due.

In the fourth quarter of 2006 we raised capital through the private placement of approximately $29.4 million in shares of our common stock to institutional and accredited investors at a price of $7.00 per share. Our management believes that we will be able to obtain additional funds by equity financing, if necessary. However, we may not be successful in obtaining funding on terms acceptable to us, and the inability to raise capital before our available credit is depleted would have a material adverse effect on our business and operations.

**Note 3 Development Stage Company**

We were previously a pre-exploration stage company as defined in the Statement of Financial Accounting Standards ( SFAS ) No. 7 and the Securities and Exchange Act Guide No. 7. Effective with the execution of the license agreement on August 31, 2006, we are devoting substantially all of our efforts to the research, development and commercialization of kidney and congestive heart failure treatment. For the purpose of providing cumulative amounts for the statements of operations and cash flows, these amounts consider only those losses for the period from May 4, 2001 (Date of Inception) to September 30, 2006.

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**XCORPOREAL, INC.**
**(formerly Pacific Spirit Inc.)**
**(a Development Stage Company)**
**NOTES TO THE INTERIM FINANCIAL STATEMENTS**
**September 30, 2006**
**(Unaudited)**

**Note 4 Significant Accounting Policies**

During the nine months ended September 30, 2006, we adopted the following accounting policies:

***Identifiable Intangibles***

Certain costs associated with obtaining and licensing patents and trademarks are capitalized as incurred and are amortized on a straight-line basis over the shorter of their estimated useful lives or their legal lives of 17 to 20 years. Amortization of such costs begins once the patent or trademark has been issued. We evaluate the recoverability of our patent costs and trademarks quarterly based on estimated undiscounted future cash flows.

***Stock-based Compensation***

Effective January 1, 2006, the company adopted the provisions issued by the Financial Accounting Standards Board ( FASB ) under Statement of Financial Accounting Standards ( SFAS ) No. 123-R, Share-Based Payment, ( SFAS No. 123-R ). SFAS No. 123-R requires employee stock options and rights to purchase shares under stock participation plans to be accounted for under the fair value method and requires the use of an option pricing model for estimating fair value. Accordingly, share-based compensation is measured at grant date, based on the fair value of the award. No options to purchase common stock were granted to employee or directors as of September 30, 2006. For warrants issued to non-employees see the related disclosure in Note 9.

The fair value of all share purchase options and warrants granted to employees are expensed over their vesting period with a corresponding increase to additional Paid-in Capital. Upon exercise of share purchase options and warrants, the consideration paid by the option holder is recorded as an increase to share capital

We use the Black-Scholes Option Valuation Model to calculate the fair value of share purchase options and warrants at the date of grant. Pricing models require the input of highly subjective assumptions, including the expected price volatility. Changes in these assumptions can materially affect the fair value estimate and, therefore, the existing models do not necessarily provide a reliable measure of the fair value of our share purchase options and warrants.

**Note 5 Lease Termination**

By a lease agreement effective June 1, 2001 and amended June 25, 2002, November 25, 2002, January 9, 2004 and April 11, 2005, we were granted the exclusive right to explore and mine the Del Oro and NP Claims located in Pershing County, Nevada. The term of this lease was for 30 years, renewable for an additional 30 years so long as the conditions of the lease were met. The conditions of the lease were not met, minimum payments and performance commitments were not met, and the required payments were not made. The landlord gave written default notice and on March 10, 2006 we received a termination notice dated February 18, 2006. The Company was unable to negotiate an amendment to the agreement, and the lease was terminated in March 2006.

**Note 6 Related Party Transaction**

We were charged the following by a former director of the Company:

| | Nine months ended September 30, | | May 2, 2001 (Date of Inception) to September 30, |
|---|---|---|---|
| | 2006 | 2005 | 2006 |
| Administrative services | $ 3,000 | $ 4,500 | $ 12,000 |

We owed $64,620 to related party at August 31, 2006, a director of the Company as of that date, consisting of unpaid advances and management fees. This amount was forgiven by the former director, who was no longer a shareholder as of the sale of his common stock on August 31, 2006. The debt forgiveness was accounted for as an

addition to Paid-in Capital.

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**XCORPOREAL, INC.**
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**September 30, 2006**
**(Unaudited)**

**Note 6 Related Party Transaction (continued)**

Included in accounts payable at September 30, 2006 is $Nil (December 31, 2005: $9,000) consisting of unpaid and administrative fees due to a former director of the Company.

The amount due to a related party at December 31, 2005 consisted of advances from a former director. The amount was unsecured, non-interest bearing and had no specific terms for repayment. This is included in amounts forgiven.

**Note 7 License Agreement**

On August 31, 2006, we entered into a Contribution Agreement with a company whose sole managing member is our current Chairman. We issued 9,600,000 shares of common stock in exchange for (a) all of our right, title, and interest to the name Xcorporeal and related trademarks and domain names, and (b) the right to enter into the Merger Agreement and License Agreement dated September 1, 2006 pursuant to which we obtained the exclusive rights to the technology relating to our congestive heart failure treatment, kidney failure treatment, and other medical devices. In our previously-issued September 30, 2006 balance sheet, we valued the License Agreement at $9,600,000 based on the fair market value of the shares of common stock, legal fees related to the License Agreement of $150,000 were capitalized as of September 30, 2006, and these fees along with the value of the shares issued were included in Other Assets on the balance sheet. We have concluded that the transaction should be presented as a recapitalization of the accounting acquirer, and the consideration transferred to us should be recorded at predecessor basis. As a result, in the restated unaudited interim financial statements as of September 30, 2006, the assets transferred are recorded at their carry-over basis of $1,000. The legal fees are expensed as they relate to formation and organization costs.

As consideration for granting the License, we agreed to pay a minimum annual royalty of $250,000, or 7% of net sales. The first minimum royalty payment was due by December 1, 2007. In addition we agreed, to reimburse the licensor s reasonable and necessary expenses incurred in the ordinary course of business from September 1, 2006. Please see Note 11 for related information.

**Note 8 Merger Agreement**

On September 1, 2006, we entered into a Merger Agreement with our licensor NQCI which contemplated that we would either (i) acquire it as a wholly owned subsidiary pursuant to a triangular merger, or (ii) issue shares of our common stock in consideration of the assignment of the licensed technology. The merger agreement was terminated at year end. Please see Note 11 for related information.

**Note 9 Stock Options and Warrants to Non-Employees**

On August 31, 2006, we issued immediately-exercisable, five-year warrants to purchase an aggregate of 325,000 shares of common stock at $1.00 per share, the fair market value of our common stock on the grant date, to consultants in exchange for services performed during the quarter ended September 30, 2006. In our prior quarterly report, we accounted for the expense of these warrants by estimating the fair value using the Black-Scholes pricing model. The assumptions we used included a fair market value of shares on the grant date of $1.00 per share, a weighted average risk-free interest rate of 3.88%, an expected volatility of our stock of 11.1% based on an index, and no expected dividends. We have concluded hat the assumptions used in estimating the fair value of the warrants should be revised, and that the resulting increase in fair value should be expensed accordingly. We used a medical device industry index as a basis for calculating the expected volatility of its common stock, but has subsequently determined that it is more appropriate to use the average volatility of otherwise similar public entities in accordance with SFAS No. 123R. We also increased the risk-free interest rate from 3.88% to 4.70%. In addition, we revised the $1.00 per share fair value to $7.00 per share in order to reflect the price per share from our private placement offered during the fourth quarter of 2006. The resulting fair value of such warrants increased by $2,097,611 to $2,162,611 compared to the previously filed unaudited interim financial statements. The amount was recorded under the captions Additional Paid-in Capital and Consulting Fees in the accompanying restated unaudited interim financial statements

for the third quarter ended September 30, 2006.

Deferred compensation for options granted to non-employees has been determined in accordance with SFAS No. 123 and EITF 96-18, Accounting for Equity Instruments that are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services. Accordingly, deferred compensation is determined using the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measured.

For options and warrants issued as compensation to non-employees for services that are fully vested and non-forfeitable at the time of issuance, the estimated value is recorded in equity and expensed when the services are performed and benefit is received as provided by Financial Accounting and Standards Board ( FASB ) Emerging Issues Task Force No. 96-18 Accounting For Equity Instruments That Are Issued To Other Than Employees For Acquiring Or In Conjunction With Selling Goods Or Services.

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**XCORPOREAL, INC.**
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**NOTES TO THE INTERIM FINANCIAL STATEMENTS**
**September 30, 2006**
**(Unaudited)**

**Note 9 Stock Options and Warrants to Non-Employees (continued)**

All charges for warrants granted have been determined under the fair value method using the Black-Scholes option-pricing model with the following assumptions:

| | Nine months ended September 30, 2006 |
|---|---|
| Expected dividend yield | 0.00% |
| Expected volatility | 120% |
| Risk-free interest rate | 4.70% |
| Expected terms in years | 5 years |

**Note 10 Non-cash Transactions**

Investing and financing activities that do not have a direct impact on current cash flows have been excluded from the statements of cash flows as follows:

Nine months ended September 30, 2006:

a) We cancelled 3,420,000 shares of common stock.

b) We issued 9,600,000 shares of common stock to acquire the right, title and interest to the name Xcorporeal, related trademarks and domain names, and the right to enter into the Merger Agreement and License Agreement to obtain the rights to technology relating to congestive heart and kidney failure treatment and other devices. The value of the stock was recorded at $1,000, the carryover basis of the Company s then 96% shareholder.

c) A former director of the Company forgave $64,620 of unpaid advances and management fees.

There were no non-cash transactions for the nine months ended September 30, 2005.

**Note 11 Subsequent Events**

***Nevada Reincorporation***

On October 13, 2006, Xcorporeal, Inc., a Nevada corporation ( Xcorporeal Nevada ), consummated a merger with and into its newly-formed, wholly-owned subsidiary, Xcorporeal Merger Corporation, a Delaware corporation ( Xcorporeal Delaware ) for the purpose of changing the Company s domicile from Nevada to Delaware. The reincorporation was approved by all of the stockholders of Xcorporeal Nevada. At the effective time of the reincorporation, Xcorporeal Delaware changed its name to Xcorporeal, Inc., and each outstanding share of Xcorporeal Nevada common stock, par value $0.001 per share, was automatically converted into one share of Xcorporeal Delaware common stock, par value $0.0001 per share. Each stock certificate representing issued and outstanding shares of Xcorporeal Nevada common stock continues to represent the same number of shares of Xcorporeal Delaware common stock. The substance of each stockholder s ownership interest will not materially change as a result of the reincorporation. The change in par value has been applied retroactively.

As a result of the merger, the shares of Xcorporeal Nevada were converted into Xcorporeal Delaware s common shares of capital stock on a ratio of one to one. Additionally, all warrants and options of Xcorporeal Nevada outstanding at the consummation of the merger were converted into warrants and options of Xcorporeal Delaware on a ratio of one to one.

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**XCORPOREAL, INC.**
**(formerly Pacific Spirit Inc.)**
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**NOTES TO THE INTERIM FINANCIAL STATEMENTS**
**September 30, 2006**
**(Unaudited)**

**Note 11 Subsequent Events (continued)**

***Employment Agreements***

On October 13, 2006, we entered into an employment agreement whereby for a period of four years we will pay Daniel S. Goldberger, who is both an executive and director, a base salary of $10,000 per month. Commencing 30 days after we received equity financing of at least $10,000,000 on November 20, 2006 he is paid $275,000 per year. At our sole discretion, the Executive s base salary may be increased, but not decreased, annually. Commencing on January 1, 2007 and annually thereafter, the base salary shall be increased by at least the Consumer Price Index for Los Angeles, California. He will be eligible to receive an annual bonus targeted at 50% of Executive s base salary, based on Executive achieving designated individual goals and milestones and the overall performance and profitability of the Company. The goals and milestones will be established and re-evaluated on an annual basis by mutual agreement of Executive and our Chairman, subject to review and approval by the Board or its compensation committee. Additionally, in November 2006, he was granted 400,000 stock options under our 2006 Incentive Compensation Plan. These options will vest 20% on each of the first, second, third, fourth and fifth anniversaries.

On November 30, 2006, we entered into an employment agreement with Victor Gura, M.D. On December 1, 2006, Victor Gura, M.D. became our Chief Medical and Scientific Officer. Dr. Gura has been a member of our board of directors since October 13, 2006. Dr. Gura entered into a four-year Employment Agreement with us. His initial annual base salary is $420,000. Dr. Gura is eligible to receive discretionary bonuses on an annual basis targeted at 50% of his annual salary. He will also be granted options to purchase an additional 500,000 shares of our common stock upon FDA approval of our first product. Dr. Gura is eligible to receive reimbursement of reasonable and customary relocation expenses as well as health, medical, dental insurance coverage and insurance for accidental death and disability. In the event he is terminated by us without good cause or if he resigns for good reason, as such terms as are defined in the agreement, we will be obligated to pay Dr. Gura in a lump sum an amount equal to two year s salary plus 200% of the targeted bonus. In November we issued 700,000 stock options to our chairman of the board and 500,000 stock options to Dr. Gura.

***Incentive Compensation Plan***

On October 13, 2006, after the effectiveness of the Nevada reincorporation, we adopted the Xcorporeal, Inc. 2006 Incentive Compensation Plan and the related form of option agreement. The plan authorizes the grant of stock options, restricted stock, restricted stock units and stock appreciation rights. As of February 28, 2007, there are 3,900,000 shares of common stock reserved for issuance pursuant to the plan (subject to adjustment in accordance with the provisions of the plan). The plan will continue in effect for a term of up to ten years

***Financing***

In the fourth quarter of 2006 we raised capital through the private placement of approximately $29.4 million in shares of our common stock to institutional and accredited investors at a price of $7.00 per share. We paid fees of $2.1 million to placement agents in connection with the financing. In addition, we issued 3-year warrants to purchase 100,000 and 29,221 shares of our common stock to two placement agents at $7.00 and $7.25 per share, respectively.

***Termination of Merger Agreement***

The Merger Agreement expired by its own terms on December 31, 2006. In addition, on December 29, 2006, NQCI served written notice that it was terminating the Merger Agreement, and on January 2, 2006, we consented to the termination. Accordingly, the Merger Agreement is now terminated. We will not be proceeding with any merger with NQCI. The termination of the Merger Agreement had no effect on the License Agreement, the Contribution Agreement, or the shares we issued to CNL.

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**ITEM 2. Management s Discussion and Analysis or Plan of Operation.**

*The following discussion of our financial condition and results of operations should be read in conjunction with our financial statements and the related notes, and the other financial information included in this report.*

**Forward-Looking Statements**

The forward-looking comments contained in this report involve risks and uncertainties. Our actual results may differ materially from those discussed here due to factors such as, among others, limited operating history, difficulty in developing, exploiting and protecting proprietary technologies, results of clinical studies, intense competition and substantial regulation in the healthcare industry. Additional factors that could cause or contribute to such differences can be found in the following discussion and in the Risks Factors set forth below.

**Plan of Operation**

***Overview***

On August 31, 2006, we changed our name to Xcorporeal, Inc. and thereafter acquired the rights to our congestive heart failure treatment products, Wearable Artificial Kidney, and other medical devices. As a result, we have become a development stage company focused on researching, developing and commercializing technology and products related to the treatment of kidney failure and congestive heart failure.

***License Agreement***

On September 1, 2006, we entered into the License Agreement pursuant to which we obtained exclusive rights to our technology relating to the treatment of kidney failure and congestive heart failure, with no geographic restrictions, that will last for a period of ninety-nine years or until the expiration of its proprietary rights in each item of intellectual property, if earlier. As consideration for granting the license, we agreed to pay a minimum royalty of 7% of net sales, with an annual minimum royalty of $250,000.

***Description of Business***

For the coming year we plan to test and develop the technology pursuant to our exclusive license to our Wearable Artificial Kidney and other medical devices acquired pursuant to the License Agreement. We plan to utilize this technology to build an extra-corporeal platform technology that can potentially perform functions of various human organs. The four products that we plan to market are:

1. Hospital congestive heart failure device

2. Hospital renal replacement device

3. Wearable congestive heart failure device

4. Wearable artificial kidney

Our management believes that both of the hospital adaptations of the platform technology could qualify for the CE Marking in Europe, the European equivalent of the US FDA approval, within a year and a half. Since the time frame and related costs to enter the European market are substantially less than the US, we plan on entering this market first with the goal to first generate cash flow and create credibility before entering the US market.

In the US market, we believe that the CHF hospital device will qualify for the fastest approval from the FDA due to its similarity to another device currently on the market. Therefore, we plan to lead with this device in the US which potentially could be available to market in two years. The hospital renal failure device would likely be available in three years since it will most likely require more trials. The wearable versions will need more time to design and due to their breakthrough nature, they will also require a lengthier FDA approval timeline. We estimate that the wearable devices will be available to market in five years.

We currently have extremely limited operating capital. There can be no assurance that funds required for us to commence operations will be available on terms acceptable to us or at all. Additional funding will also be needed to

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meet our royalty and expense payment obligations with respect to the License Agreement. If we are unable to raise sufficient funds on terms acceptable to us, we may be unable to complete our business plan. If equity financing is available to us on acceptable terms, it could result in additional dilution to our stockholders.

***Competitors***

We compete directly and indirectly with other businesses, including businesses in the dialysis industry. The major competitors for our platform technology are those companies manufacturing and selling dialysis equipment and supplies. We will compete with these companies in the critical care markets as well as the wearable application markets. In many cases, these competitors are larger and more firmly established than we are. In addition, many of such competitors have greater marketing and development budgets and greater capital resources than our company. The wearable artificial kidney will also compete with dialysis clinics in treating ESRD patients. We anticipate that some of our largest competitors will be companies such as Baxter, Fresenius, Gambro, DaVita, AKSYS, NxStage, and Nephros.

***Governmental Regulations***

We are subject to government regulation relating to the development and marketing of our products. Due to the relatively early nature of our development efforts, we have not yet confirmed with the FDA its view of the regulatory status of any of our products or which center of the FDA might have primary responsibility for review of the regulatory submissions we intend to make. Depending on the claims made and the FDA s ruling regarding the regulatory status of each of our products, they may be designated as a device, a biologic or as a combination product. However, we anticipate that regardless of regulatory designation, we will need to conduct pre-clinical and clinical studies on humans before being able to market our products.

To support a regulatory submission, the FDA commonly requires clinical studies to show safety and effectiveness. While we cannot currently state the nature of any such studies that the FDA may require due to our early stage of product development, it is likely any product we attempt to develop will require extensive and time-consuming clinical studies in order to secure approval.

Outside the U.S., the ability to market potential products is contingent upon receiving market application authorizations from the appropriate regulatory authorities. These foreign regulatory approval processes may involve differing requirements than those of the FDA, but also generally include many, if not all, of the risks associated with the FDA approval process described above, depending on the country involved.

In the U.S., medical devices are classified into 3 different classes, Class I, II and III, on the basis of controls deemed reasonably necessary to ensure the safety and effectiveness of the device. Class I devices are subject to general controls (i.e. labeling, pre-market notification and adherence to the FDA s Good Manufacturing Practices or GMP), Class II devices are subject to general and special controls (I.E. performance standards, post-market surveillance, patient registries and FDA guidelines). Class III devices are those which must receive pre-market approval by the FDA to ensure their safety and effectiveness, that is, life-sustaining, life-supporting and implantable devices, or new devices, which have been found not to be substantially equivalent to legally marketed devices.

Before new medical devices such as our products can be marketed, marketing clearance must be obtained through a pre-market notification under Section 510(k) of the Federal Food, Drug, and Cosmetic Act or the FDC Act. Noncompliance with applicable requirements can result in fines, injunctions, civil penalties, recall or seizure of products, total or partial suspension of production, refusal to authorize the marketing of new products or to allow us to enter into supply contracts and criminal prosecution. A 510(k) clearance will typically be granted by the FDA, if it can be established that the device is substantially equivalent to a predicate device, which is a legally marketed Class I or II device or a pre-amendment Class III device (I.E. one that has been marketed since a date prior to May 28, 1976), for which the FDA has not called for PMAs. The FDA has been requiring an increasingly rigorous demonstration of substantial equivalence, which may include a requirement to submit human clinical trial data. It generally takes 4 to 12 months from the date of a 510(k) submission to obtain clearance, but it may take longer.

If clearance or approval is obtained, any device manufactured or distributed by us will be subject to pervasive and continuing regulation by the FDA. We will be subject to routine inspection by the FDA and will have to comply with the host of regulatory requirements that usually apply to medical devices marketed in the U.S. including labeling regulations, GMP requirements, Medical Device Reporting, or MDR, regulation (which requires a manufacturer to

report to the FDA certain types of adverse events involving its products), and the FDA s prohibitions against promoting products for unapproved or off-label uses.

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The FDA Act makes changes to the device provisions of the FDC Act and other provisions in the FDC Act affecting the regulation of devices. Among other things, the changes will affect the IDE and PMA processes, and also will affect device standards and data requirements, procedures relating to humanitarian and breakthrough devices, tracking and post-market surveillance, accredited third party review and the dissemination of off-label information. We cannot predict how or when these changes will be implemented or what effect the changes will have on the regulation of our products and anticipated products.

If the FDA believes that a company is not in compliance with law, it can institute proceedings to detain or seize products, issue a recall, enjoin future violations and assess civil and criminal penalties against that company, its officers and its employees. Failure to comply with the regulatory requirements could have a material adverse effect on our business, financial condition and results of operations. In addition, regulations regarding the manufacture and sale of our products are subject to change.

International Organization for Standards, or ISO, standards were developed by the European Community, or EC, as a tool for companies interested in increasing productivity, decreasing cost and increasing quality. The EC uses ISO standards to provide a universal framework for quality assurance and to ensure the good quality of products and services across borders. The ISO 9000 standards have facilitated trade throughout the EC, and businesses and governments throughout the world are recognizing the benefit of the globally accepted uniform standards. Any manufacturer utilized for purposes of manufacturing our products (including us, if we manufacture our own products) will be required to obtain ISO certification to facilitate the highest quality products and the easiest market entry in cross-border marketing. This will enable us to market our products in all of the member countries of the EU. We also will be required to comply with additional individual national requirements that are outside the scope of those required by the European Economic Area.

Any medical device that is legally in the U.S. may be exported anywhere in the world without prior FDA notification or approval. The export provisions of the FDC Act apply only to unapproved devices. While FDA does not place any restrictions on the export of these devices, certain countries may require written certification that a firm or its devices are in compliance with U.S. law. In such instances FDA will accommodate U.S. firms by providing a Certificate for Foreign Government. In cases where there are devices which the manufacturer wishes to export during the interim period while their 510(k) submission is under review, exporting may be allowed without prior FDA clearance under certain limited conditions.

***Research and Development***

We acquired the exclusive license to our platform technology on September 1, 2006, and have not yet begun research and development efforts. Once we have assembled a team to facilitate our research and development efforts, we anticipate that the goals of our research and development efforts will include:

Improving the chemicals used in the dialysis process; the current chemicals have been used for decades. Management believes that new chemicals that last longer and can be used in small quantities would further reduce the cost and weight of its product.

Developing software that allows physicians to customize the function of the device to meet the specific dialysis needs of each patient.

Adapting the technology underlying the wearable artificial kidney to other medical uses. Management believes that this technology is a platform for a number of other devices that can be used to treat other diseases and it would offer substantive value propositions for patients and healthcare providers.

**Management s Discussion and Analysis**

***Results of Operations for the three and nine months ended September 30, 2006***

We have not generated any revenues since inception. We incurred net loss of $3,225,357 for the three months ended September 30, 2006, compared to a net loss of $4,558 for the three months ended September 30, 2005. We incurred net loss of $3,237,147 for the nine months ended September 30, 2006, compared to net loss of $25,764 for the nine months ended September 30, 2005. The increase in net loss was primarily due to research, development and other expenses incurred pursuant to the License Agreement and consulting fees paid as stock warrants during the third

quarter of 2006. At September 30, 2006, we had negative working capital of $1,061,473, compared to negative working capital of $52,557 for beginning of the year. We had assets of $1,000 at September 30, 2006 and $nil at the beginning of the year.

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***Liquidity and Capital Resources***

We expect to incur operating losses and negative cash flows, and have no available cash, which raise substantial doubt about our ability to continue as a going concern. Our ability to execute on our current business plan is dependent upon our ability to obtain equity financing, develop and market our products, and, ultimately, to generate revenue.

***Financing***

In the fourth quarter of 2006 we raised capital through the private placement of approximately $29.4 million in shares of our common stock to institutional and accredited investors at a price of $7.00 per share. We paid fees of $2.1 million to placement agents in connection with the financing. In addition, we issued 3-year warrants to purchase 100,000 and 29,221 shares of our common stock to two placement agents at $7.00 and $7.25 per share, respectively.

***Off-Balance Sheet Arrangements***

As of September 30, 2006, we had no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, results of operations or cash flows.

***License Agreement***

On August 11, 2006, Consolidated National, LLC (CNL) entered into an Irrevocable Option Agreement with National Quality Care, Inc. (NQCI) following extensive negotiations that commenced in late 2005. There was no pre-existing relationship between NQCI and CNL or their principals.

On August 31, 2006, we entered into a Contribution Agreement with Consolidated National, LLC, whose sole managing member is our current Chairman, given us the right to enter into a Merger Agreement and a License Agreement with NQCI. We issued 9,600,000 shares of common stock, a 96% voting interest in our company, in exchange for all of our right, title, and interest to the name Xcorporeal and related trademarks and domain names, and the right to enter into the License Agreement dated September 1, 2006 pursuant to which we obtained the exclusive rights to the technology relating to our congestive heart failure treatment, kidney failure treatment, and other medical devices. Prior to the August 31, 2006 transaction, we were a shell corporation.

The Merger Agreement dated September 1, 2006 expired by its own terms on December 31, 2006. In addition, on December 29, 2006, NQCI served written notice that it was terminating the Merger Agreement, and on January 2, 2006, we consented to the termination. Accordingly, the Merger Agreement is now terminated. We will not be proceeding with any merger with NQCI. The termination of the Merger Agreement had no effect on the Contribution Agreement, the shares we issued to CNL, or the License Agreement.

On December 1, 2006, we initiated an arbitration against NQCI for its breach of the License Agreement, which remains pending. On December 29, 2006, NQCI served us with a written notice purporting to terminate the License Agreement for unspecified alleged breaches. On January 2, 2006, we advised NQCI that we did not consent to termination of the License Agreement, that we have not breached the License Agreement, and that NQCI has no right to unilaterally terminate the License Agreement in any event. Accordingly, the License Agreement cannot be terminated.

***Restatement of Interim Financial Statements***

As described in Notes 7 and 9 above, we are restating the accompanying unaudited interim financial statements to present the August 31, 2006 transaction by which we ceased to be a shell corporation as a recapitalization of the accounting acquirer, and record the License Agreement at predecessor basis, and to revise the assumptions used in estimating the fair value of warrants issued to consultants.

The Company also revised the assumptions used in estimating the fair value of warrants granted to three consultants during the third quarter of 2006. The resulting increase in fair value of such warrants was recorded in the accompanying restated unaudited interim financial statements.

***Critical Accounting Policies and Estimates***

The discussion and analysis of our financial condition and results of operations is based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. Generally accepted accounting principles require management to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. We base our estimates on experience and on various other assumptions that we believe to be reasonable

under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that may not be readily apparent from other sources. Our actual results may differ from those estimates.

We consider our critical accounting policies to be those that involve significant uncertainties, require judgments or estimates that are more difficult for management to determine or that may produce materially different results when using different assumptions. We consider the following accounting policies to be critical:

*Identifiable Intangibles*

Certain costs associated with obtaining and licensing patents and trademarks are capitalized as incurred and are amortized on a straight-line basis over the shorter of their estimated useful lives or their legal lives of 17 to 20 years. Amortization of such costs begins once the patent or trademark has been issued. We evaluate the recoverability of our patent costs and trademarks quarterly based on estimated undiscounted future cash flows.

*Stock-Based Compensation*

Statements of Financial Accounting Standards (SFAS) No. 123 (revised 2004), *Share-Based Payment*, (SFAS 123(R)) and Securities and Exchange Commission issued Staff Accounting Bulletin (SAB) No. 107 (SAB 107) require the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors based on estimated fair values. We have applied the provisions of SAB 107 in its adoption of SFAS 123(R).

***Recent Accounting Pronouncements***

In March 2006, the FASB issued SFAS No. 156, *Accounting for Servicing of Financial Assets an amendment of FASB Statement No. 140* (SFAS 156). The provisions of SFAS 156 are effective for fiscal years beginning after September 15, 2006. This statement was issued to simplify the accounting for servicing rights and to reduce the volatility that results from using different measurement attributes. We do not believe the adoption of SFAS 156 will have a material impact on our financial position or results of operations.

In July 2006, the FASB released FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109* (FIN 48). FIN 48 clarifies the accounting and reporting for uncertainties in income tax law. This Interpretation prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in income tax

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returns. This statement is effective for fiscal years beginning after December 15, 2006. We are currently in the process of evaluating the expected effect of FIN 48 on our results of operations and financial position.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. We are required to adopt the provision of SFAS 157, as applicable, beginning in fiscal year 2008. We are currently in the process of evaluating the expected effect of SFAS 157 on our results of operations and financial position.

In February 2007, the Financial Accounting Standards Board ( FASB ) issued FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities* ( *SFAS No. 159* ). SFAS No. 159 permits an entity to choose to measure many financial instruments and certain items at fair value. The objective of this standard is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reporting earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS No. 159 permits all entities to choose to measure eligible items at fair value at specified election dates. Entities will report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. The fair value option: (a) may be applied instrument by instrument, with a few exceptions, such as investments accounted for by the equity method; (b) is irrevocable (unless a new election date occurs); and (c) is applied only to entire instruments and not to portions of instruments. SFAS No. 159 is effective as of the beginning of an entity s first fiscal year that begins after November 15, 2007, which for us would be our fiscal year beginning August 1, 2008. Early adoption is permitted as of the beginning of the previous fiscal year provided that the entity makes that choice in the first 120 days of that fiscal year and also elects to apply to provision of FASB Statement No. 157, *Fair Value Measurements.* We are currently evaluating the impact that the adoption of SFAS No. 159 will have on our consolidated financial statements.

In December 2006, the FASB issued FSP 00-19-2, *Accounting for Registration Payment Arrangements* ( *FSP 00-19-2* ) which addresses accounting for registration payment arrangements. FSP 00-19-2 specifies that the contingent obligation to make future payments or otherwise transfer consideration under a registration payment arrangement, whether issued as a separate agreement or included as a provision of a financial instrument or other agreement, should be separately recognized and measured in accordance with FASB Statement No. 5, *Accounting for Contingencies.* FSP 00-19-2 further clarifies that a financial instrument subject to a registration payment arrangement should be accounted for in accordance with other applicable generally accepted accounting principles without regard to the contingent obligation to transfer consideration pursuant to the registration payment. FSP 00-19-2 is effective immediately for registration payment arrangements and the financial instruments subject to those arrangements that are entered into or modified subsequent to December 21, 2006. For registration payment arrangement and related financial instruments entered into prior to December 21, 2006, FSP 00-19-2 is effective for financial statements issued for fiscal years beginning after December 15, 2006 and interim periods within those financial years. Companies are required to report transition through a cumulative- effect adjustment to the opening balance of retained earnings as of the first interim period for the fiscal year in which FSP 00-19-2 is adopted. We are currently evaluating the impact that the adoption of FSP 00-19-2 will have on our financial statements.

In September 2006, the Securities and Exchange Commission (the SEC ) issued Staff Accounting Bulletin No. 108 (Topic 1N), *Considering the Effects of Prior Year Misstatement when Quantifying Misstatements in Current Year Financial Statements,* ( *SAB No. 108* ). SAB No. 108 requires SEC registrants (i) to quantify misstatements using a combined approach that considers both the balance-sheet and income-statement approaches, (ii) to evaluate whether either approach results in quantifying an error that is material in light of relevant quantitative and qualitative factors, and (iii) to adjust their financial statements if the new combined approach results in a conclusion that an error is material. SAB No. 108 is effective for fiscal years ending after November 15, 2006, which for us would be our current fiscal year ending July 31, 2007. We are currently evaluating the impact, if any, of SAB No. 108 on our financial position and results of operations.

**Risk Factors**

You should carefully consider and evaluate all of the information in this report, including the risk factors listed below. If any of these risks occur, our business, results of operations and financial condition could be harmed, the price of our common stock could decline, and future events and circumstances could differ significantly from those anticipated in the forward-looking statements contained in this report.

**Risks Related to Our Business**

***Our limited operating history may make it difficult to evaluate our business to date and our future viability.***

We are in the early stage of operations and development, and have only a limited operating history on which to base an evaluation of our business and prospects, having just commenced operations in August 2006 in accordance with our new business plan and entry into the medical devices industry. In addition, our operations and developments are subject to all of the risks inherent in the growth of an early stage company. We will be subject to the risks inherent in the ownership and operation of a company with a limited operating history such as regulatory setbacks and delays, fluctuations in expenses, competition, the general strength of regional and national economies, and governmental regulation. Any failure to successfully address these risks and uncertainties would seriously harm our business and prospects. We may not succeed given the technological, marketing, strategic and competitive challenges we will face. The likelihood of our success must be considered in light of the expenses, difficulties, complications, problems and delays frequently encountered in connection with the growth of a new business, the continuing development of new technology, and the competitive and regulatory environment in which we operate or may choose to operate in the future. We have generated no revenues to date, and there can be no assurance that we will be able to successfully develop our products and penetrate our target markets.

***We expect to continue to incur operating losses, and if we are not able to raise necessary additional funds we may have to reduce or stop operations.***

We have not generated revenues or become profitable, may never do so, and may not generate sufficient working capital to cover the cost of operations. No party has guaranteed to advance additional funds to us to provide for any operating deficits. Until we begin generating revenue, we may seek funding through the sale of equity, or securities convertible into equity, further dilution to our then existing stockholders may result. If we raise additional capital through the incurrence of debt, our business may be affected by the amount of leverage we incur, and our borrowings may subject us to restrictive covenants. Additional funding may not be available to us on acceptable terms, or at all. If we are unable to obtain adequate financing on a timely basis, we may be required to delay, reduce or stop operations, any of which would have a material adverse effect on our business.

***Our success will depend on our ability to retain our managerial personnel and to attract additional personnel.***

Our success will depend largely on our ability to attract and retain managerial personnel. Competition for desirable personnel is intense, and we cannot guarantee that we will be able to attract and retain the necessary staff. The loss of members of managerial, sales or scientific staff could have a material adverse effect on our future operations and on successful development of products for our target markets. The failure to maintain our management and to attract additional key personnel could materially adversely affect our business, financial condition and results of operations. Although we intend to provide incentive compensation to attract and retain our key personnel, we cannot guarantee that these efforts will be successful.

We may need to expand our finance, administrative, scientific, sales and marketing, and operations staff. There are no assurances that we will be able to make such hires. In addition, we may be required to enter into relationships with various strategic partners and other third parties necessary to our business. Planned personnel may not be

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adequate to support our future operations, management may not be able to hire, train, retain, motivate and manage required personnel or management may not be able to identify, manage and exploit existing and potential strategic relationships and market opportunities. If we fail to manage our growth effectively, it could have a material adverse effect on our business, results of operations and financial condition.

***We need to develop our financial and reporting processes, procedures and controls to support our anticipated growth.***

We have not historically invested significantly in our financial and reporting systems. To comply with our public reporting requirements, and manage the anticipated growth of our operations and personnel, we will be required to improve existing or implement new operational and financial systems, processes and procedures, and to expand, train and manage our employee base. Our current and planned systems, procedures and controls may not be adequate to support our future operations.

The laws and regulations affecting public companies, including the provisions of the Sarbanes-Oxley Act of 2002 and rules adopted or proposed by the Securities and Exchange Commission, will result in increased costs to us as we evaluate the implications of any new rules and respond to their requirements. New rules could make it more difficult or more costly for us to obtain certain types of insurance, including director and officer liability insurance, and we may be forced to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. We cannot predict or estimate the amount of the additional costs we may incur or the timing of such costs to comply with any new rules and regulations, or if compliance can be achieved.

***We cannot assure you that we will be able to complete development and obtain necessary approvals for our proposed products even if we obtain sufficient funding.***

Even if we obtain sufficient funding, no assurance can be given that we will be able to design or have designed parts necessary for the manufacture of our products or complete the development of our proposed products within our anticipated time frames, if at all. Such a situation could have a material adverse effect upon our ability to remain in business.

***The success of our business will depend on our ability to develop and protect our intellectual property rights, which could be expensive.***

Patent and other proprietary rights are essential to our business. Our success depends to a significant degree on our ability to obtain and enforce patents and licenses to patent rights, both in the U.S. and in other countries. We cannot be certain that the patents that we license from others will be enforceable and afford protection against competitors. Our patent rights may not provide us with proprietary protection or competitive advantages against competitors with similar technologies. Even if such patents are valid, we cannot guarantee that competitors will not independently develop alternative technologies that duplicate the functionality of our technology.

We also rely on trademarks, copyrights, trade secrets and know-how to develop, maintain and strengthen our competitive positions. While we protect our proprietary rights to the extent possible, we cannot guarantee that third parties will not know, discover or develop independently equivalent proprietary information or techniques, that they will not gain access to our trade secrets or disclose our trade secrets to the public. Therefore, we cannot guarantee that we can maintain and protect unpatented proprietary information and trade secrets. Misappropriation of our intellectual property would have an adverse effect on our competitive position and may cause us to incur substantial litigation costs.

***We may be subject to claims that we infringe the intellectual property rights of others, and unfavorable outcomes could harm our business.***

Our future operations may be subject to claims, and potential litigation, arising from our alleged infringement of patents, trade secrets or copyrights owned by other third parties. We intend to fully comply with the law in avoiding such infringements. However, within the medical devices industry, established companies have actively pursued such infringements, and have initiated such claims and litigation, which has made the entry of competitive products more difficult. We may experience such claims or litigation initiated by existing, better-funded competitors. Court-ordered injunctions may prevent us from bringing new products to market, and the outcome of litigation and any resulting loss of revenues and expenses of litigation may substantially affect our ability to meet our expenses and continue operations.

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***We may not be able to operate as a going concern and our business may fail.***

The Independent Auditor s Report to our audited financial statements for the period ended December 31, 2005 indicates that there are a number of factors that raise substantial doubt about our ability to continue as a going concern. Such factors identified in the report are: we are in a net loss position; we have not attained profitable operations; and we are dependent upon obtaining adequate financing to execute our business plan. If we are not able to continue as a going concern, it is likely investors will lose their investments.

***We compete against other dialysis equipment manufacturers with much greater financial resources and better established products and customer relationships, which may make it difficult for us to penetrate the market and achieve significant sales of our products.***

Our proposed products will compete directly against equipment produced by Fresenius Medical Care AG, Baxter Healthcare Corporation, Gambro AB, and others, each of which markets one or more FDA-cleared medical devices for the treatment of acute or chronic kidney failure. Each of these competitors offers products that have been in use for a longer time than our products and are more widely recognized by physicians, patients and providers. Most of our competitors have significantly more financial and human resources, more established sales, service and customer support infrastructures and spend more on product development and marketing than we do. Many of our competitors also have established relationships with the providers of dialysis therapy. Most of these companies manufacture additional complementary products enabling them to offer a bundle of products and have established sales forces and distribution channels that may afford them a significant competitive advantage.

The market for our products is competitive, subject to change and affected by new product introductions and other market activities of industry participants, including increased consolidation of ownership of clinics by large dialysis chains. If we are successful, our competitors are likely to develop products that offer features and functionality similar to our proposed products. Improvements in existing competitive products or the introduction of new competitive products may make it more difficult for us to compete for sales, particularly if those competitive products demonstrate better safety, convenience or effectiveness or are offered at lower prices. If we are unable to compete effectively against existing and future competitors and existing and future alternative treatments and pharmacological and technological advances, it will be difficult for us to penetrate the market and achieve significant sales of our products.

***We have not commissioned or obtained marketing studies which support the likelihood of success of our business plan.***

No independent studies with regard to the feasibility of our proposed business plan have been conducted by any independent third parties with respect to our present and future business prospects and our capital requirements. In addition, there can be no assurances that our products or our treatment modality for ESRD will find sufficient acceptance in the marketplace to enable us to fulfill our long and short term goals, even if adequate financing is available and our products are approved to come to market, of which there can be no assurance.

***An unfavorable result in the pending arbitration could have a material adverse effect on our business.***

We consider the protection of our proprietary technology for treatment of kidney failure and congestive heart failure to be critical to our business prospects. We obtained the rights to some of our most significant patented and patent-pending technologies through a License Agreement with National Quality Care, Inc. (NQCI). On December 1, 2006 we initiated an arbitration against NQCI for failure to fully perform its obligations under our License Agreement. NQCI has filed counterclaims seeking to invalidate the License Agreement and claiming monetary damages against us. If NQCI were to prevail on some or all of its claims, we could be prevented from using some or all of the patented technology we licensed from it. That could significantly impact our ability to use and develop our technologies, which would have a material adverse effect on our business and results of operations.

**Risks Related to Our Industry**

***Our business will always be strictly regulated by the federal and other governments, and we cannot assure you that we will remain in compliance with all applicable regulation.***

Clinical testing, manufacture, promotion and sale of our proposed products are subject to extensive regulation by numerous governmental authorities in the U.S., principally the FDA, and corresponding foreign regulatory agencies. Changes in existing regulations or adoption of new regulations or policies could prevent us from obtaining, or affect the timing of, future regulatory approvals or clearances. We cannot assure you that we will be able to obtain necessary

regulatory clearances or approvals on a timely basis, or at all, or that we will not be required to incur significant costs in obtaining or maintaining such foreign regulatory approvals. Delays in receipt of, or failure to receive, such approvals or clearances, the loss of previously obtained approvals or clearances or the failure to comply with existing or future regulatory requirements could have a material adverse effect on our business, financial condition and results of operations.

Any enforcement action by regulatory authorities with respect to past or future regulatory noncompliance could have a material adverse effect on our business, financial condition and results of operations. Noncompliance with applicable requirements can result in fines, injunctions, civil penalties, recall or seizure of products, total or partial suspension of production, refusal to authorize the marketing of new products or to allow us to enter into supply contracts and criminal prosecution.

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Even if our proposed products are approved for market, we will be subject to continuing regulation. We will continuously be subject to routine inspection by the FDA and will have to comply with the host of regulatory requirements that usually apply to medical devices marketed in the U.S. including labeling regulations, GMP requirements, MDR regulation (which requires a manufacturer to report to the FDA certain types of adverse events involving its products), and the FDA s prohibitions against promoting products for unapproved or off-label uses. Our failure to comply with applicable regulatory requirements could result in enforcement action by the FDA, which could have a material adverse effect on our business, financial condition and results of operations.

In addition, failure to comply with applicable international regulatory requirements can result in fines, injunctions, civil penalties, recalls or seizures of products, total or partial suspensions of production, refusals by foreign governments to permit product sales and criminal prosecution. Furthermore, changes in existing regulations or adoption of new regulations or policies could prevent us from obtaining, or affect the timing of, future regulatory approvals or clearances. There can be no assurance that we will be able to obtain necessary regulatory clearances or approvals on a timely basis, or at all, or that we will not be required to incur significant costs in obtaining or maintaining such foreign regulatory approvals. Delays in receipt of, or failure to receive, such approvals or clearances, the loss of previously obtained approvals or clearances or the failure to comply with existing or future regulatory requirements could have a material adverse effect on our business, financial condition and results of operations. Any enforcement action by regulatory authorities with respect to past or future regulatory noncompliance could have a material adverse effect on our business, financial condition and results of operations.

***Our failure to respond to rapid changes in technology and its applications and intense competition in the medical devices industry could make our treatment system obsolete.***

The medical devices industry is subject to rapid and substantial technological development and product innovations. To be successful, we must respond to new developments in technology, new applications of existing technology and new treatment methods. Our response may be stymied if we require, but cannot secure, rights to essential third-party intellectual property. We may compete against companies offering alternative treatment systems to ours, some of which have greater financial, marketing and technical resources to utilize in pursuing technological development and new treatment methods. Our financial condition and operating results could be adversely affected if our medical device products fail to compete favorably with these technological developments, or if we fail to be responsive on a timely and effective basis to competitors new devices, applications, treatments or price strategies.

## Risks Related to Our Common Stock

***If a market for our common stock does not develop, our stockholders may be unable to sell their shares.***

There is currently no market for our common stock and we can provide no assurance that a market will develop. If no market is ever developed for our shares, it will be difficult for stockholders to sell their stock. In such a case, stockholders may find that they are unable to achieve benefits from their investment.

***If a market for our common stock develops, our stock price may be volatile.***

If a market for our common stock develops, the price at which our common stock will trade may be highly volatile and may fluctuate as a result of a number of factors, including the number of shares available for sale in the market, quarterly variations in our operating results, actual or anticipated announcements of new data, studies, products or services by us or competitors, regulatory investigations or determinations, acquisitions or strategic alliances by us or our competitors, recruitment or departures of key personnel, the gain or loss of significant customers, changes in the estimates of our operating performance, market conditions in our industry and the economy as a whole.

***Over 68% of our stock is controlled by a single stockholder who has the ability to substantially influence the election of directors and the outcome of matters submitted to stockholders.***

As of September 1, 2006, Consolidated National, LLC (CNL), a limited liability company whose managing member is our Chairman, directly owned 9,600,000 shares, which represent 68% of our 14,200,050 shares of outstanding common stock as of February 28, 2007. As a result, CNL presently and is expected to continue to have the ability to substantially influence the outcome of issues submitted to our stockholders. The interests of this stockholder may not always coincide with our interests or the interests of other stockholders, and it may act in a manner that advances its best interests and not necessarily those of other stockholders. One consequence to this substantial stockholder s interest is that it may be difficult for investors to

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remove management of the company. It could also deter unsolicited takeovers, including transactions in which stockholders might otherwise receive a premium for their shares over then current market prices.

***Investors interests in our company will be diluted and investors may suffer dilution in their net book value per share if we issue additional shares or raise funds through the sale of equity securities.***

In the event that we are required to issue any additional shares or enter into private placements to raise financing thro the sale of equity securities, investors interests in our company will be diluted and investors may suffer dilution in their net book value per share depending on the price at which such securities are sold. If we issue any such additional shares, such issuances also will cause a reduction in the proportionate ownership and voting power of all other stockholders. Further, any such issuance may result in a change in our control.

***We have never paid cash dividends and do not intend to do so.***

We have never declared or paid cash dividends on our common stock. We currently plan to retain any earnings to finance the growth of our business rather than to pay cash dividends. Payments of any cash dividends in the future will depend on our financial condition, results of operations and capital requirements, as well as other factors deemed relevant by our board of directors.

## CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING INFORMATION

This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 with respect to the financial condition, results of operations, business strategies, operating efficiencies or synergies, competitive positions, growth opportunities for existing products, plans and objectives of management, markets for stock of Xcorporeal and other matters. Statements in this report that are not historical facts are forward-looking statements for the purpose of the safe harbor provided by Section 21E of the Exchange Act and Section 27A of the Securities Act. Such forward-looking statements, including, without limitation, those relating to the future business prospects, revenues and income of Xcorporeal, wherever they occur, are necessarily estimates reflecting the best judgment of the senior management of Xcorporeal on the date on which they were made, or if no date is stated, as of the date of this report. These forward-looking statements are subject to risks, uncertainties and assumptions, including those described in the Risk Factors described below, that may affect the operations, performance, development and results of our business. Because the factors discussed in this report could cause actual results or outcomes to differ materially from those expressed in any forward-looking statements made by us or on our behalf, you should not place undue reliance on any such forward-looking statements. New factors emerge from time to time, and it is not possible for us to predict which factors will arise. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

You should understand that the following important factors, in addition to those discussed above and in the Risk Factors could affect our future results and could cause those results to differ materially from those expressed in such forward-looking statements:

- our capital needs and ability to obtain financing,
- our ability to successfully research and develop marketable products,
- our ability to obtain regulatory approval to market and distribute our products,
- anticipated trends and conditions in the industry in which we operate, including regulatory changes,
- general economic conditions, and
- other risks and uncertainties as may be detailed from time to time in our public announcements and filings with the SEC.

We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or any other reason. All subsequent forward-looking statements attributable to the Company or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements

contained or referred to herein. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this report may not occur.

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**ITEM 3. Controls and Procedures**.

We conducted an evaluation, under the supervision and with the participation of our President and Chief Operating Officer (our principal executive and principal financial officer), of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of September 30, 2006. Based upon this evaluation, our President and Chief Operating Officer concluded that our disclosure controls and procedures were effective to ensure that required material information is included in the quarterly report filed November 17, 2006.

Our certifying officers have reconsidered the effect on the adequacy of our disclosure controls and procedures as of September 30, 2006 in light of the material errors we have disclosed. Additionally, the errors affected our current evaluation of disclosure controls and procedures as of our year ended December 31, 2006. A material weakness in our internal control over financial reporting and the application of accounting for share-based payments existed as of September 30, 2006, with regard to our design and maintenance of adequate controls and procedures for the preparation, review, presentation and disclosure of information included in our financial statements, which resulted in misstatements therein. The transaction by which we ceased to be a shell corporation was not appropriately characterized on the balance sheet as a recapitalization of the accounting acquirer and recorded at predecessor basis, and warrant expense was incorrectly estimated. As a result, our President and Chief Operating Officer (principal executive officer) and Chief Financial Officer (principal financial officer) have now concluded that our disclosure controls and procedures were not effective as of September 30, 2006.

A material weakness in internal control is a reportable condition in which the design or operation of one or more of the internal components does not reduce to a relatively low level the risk that misstatements caused by errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

The deficiencies in our internal control over financial reporting and the application of accounting for share-based payments were due to our extremely limited number of personnel, and limitations in our accounting resources that affected our ability to timely identify and analyze non- routine complex transactions. We have subsequently taken the following actions, which we believe have fully remediated the material weaknesses in our internal control over financial reporting:

Effective January 2, 2007, we appointed an interim Chief Financial Officer with education and background in accounting and finance, substantial experience as CFO of publicly traded companies, and adequate knowledge of financial accounting, internal control, and generally accepted accounting principles.

Effective February 27, 2007, our board of directors formed an Audit Committee composed of three independent directors, including a chairman who meets the requirements as an audit committee financial expert based on his experience and abilities.

A thorough review of our financial reporting structures, internal control structures, and regulatory filings was conducted by our CFO to ensure our controls and procedures are adequate and effective.

There were no changes in our internal control over financial reporting during the quarter ended September 30, 2006 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting

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## PART II OTHER INFORMATION

**ITEM 1. Legal Proceedings.**

As of September 30, 2006, we were not involved in any legal proceedings.

On December 1, 2006, we initiated an arbitration against National Quality Care, Inc. (NQCI) for its failure to fully perform its obligations under our License Agreement. On December 29, 2006, NQCI filed suit against us in Los Angeles County Superior Court entitled *National Quality Care, Inc. v. Victor Gura, M.D., et al.*, Case No. BC364140. We have reviewed the complaint with our outside counsel and determined that it is frivolous and without merit. We do not believe there is any reasonable likelihood that NQCI can prevail on its claims. On January 5, 2007, we filed a petition to compel arbitration, and NQCI subsequently stipulated to resolve all claims in the pending arbitration. On March 20, 2007, the lawsuit was dismissed without prejudice.

**ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

Effective August 31, 2006, we issued 9,600,000 shares of our common stock to Consolidated National, LLC (CNL) pursuant to a Contribution Agreement, in exchange for all of CNL s right, title, and interest to our name and related trademarks and domain names, and the right to enter into the Merger Agreement and License Agreement pursuant to which we obtained an exclusive license to technology relating to our Wearable Artificial Kidney, congestive heart failure treatments, and other medical devices. The shares of common stock we issued were exempt from registration under the Securities Act of 1933, as amended (the Securities Act ), pursuant to the exemption provided by Section 4(2) of the Securities Act for issuances not involving a public offering.

On August 31, 2006, we issued three consultants a total of 325,000 warrants with an exercise price of $1.00 per share in exchange for services performed during the quarter ended September 30, 2006. The warrants we issued were exempt from registration under the Securities Act, pursuant to the exemption provided by Section 4(2) of the Securities Act for issuances not involving a public offering.

On December 13, 2006, we completed a private placement of an aggregate of 4,200,050 unregistered shares of common stock to institutional and accredited investors, priced at $7.00 per share, for proceeds of approximately $27.3 million, net of placement agent fees of $2.1 million. Purchasers included affiliates of our board members Marc Cummins and Jay Wolf. We entered into purchase and registration rights agreements with each of the purchasers. The private placements were exempt from registration under the Securities Act pursuant to the exemption provided by Section 4(2) of the Securities Act for issuances not involving a public offering.

**ITEM 4. Submission of Matters to a Vote of Security Holders.**

On August 31, 2006, our stockholders approved a Certificate of Amendment to Articles of Incorporation, changing our name to Xcorporeal, Inc.

On October 13, 2006, our stockholders approved our reincorporation to Delaware, and the adoption of our 2006 Incentive Compensation Plan.

On November 17, 2006, our stockholders elected Marc Cummins, Dr. Hervé de Kergrohen, and Jay Wolf as directors.

**ITEM 5. Other Information.**

**Board of Directors**

On November 17, 2006, Marc Cummins, Dr. Hervé de Kergrohen, and Jay Wolf were elected to our board of directors. None has had a material interest in any of our transactions. On February 27, 2007, Nicholas S. Lewin was elected to our board. Following are the current members of our board:

**Terren S. Peizer**, age 47, was appointed as a Director and our Chairman on August 31, 2006. From April 1999 to October 2003, Mr. Peizer served as Chief Executive Officer of Clearant, Inc., which he founded to develop and commercialize a universal pathogen inactivation technology. He served as Chairman of its board of directors from April 1999 to October 2004 and a Director until February 2005. From February 1997 to February 1999, Mr. Peizer served as President and Vice Chairman of Hollis-Eden Pharmaceuticals, Inc. In addition, from June 1999 through May 2003 he was a Director, and from June 1999 through December 2000 he was Chairman of the Board, of supercomputer designer and builder Cray Inc., and remains its largest beneficial stockholder. Mr. Peizer has been the largest beneficial stockholder and held various senior executive positions with several technology and biotech companies. In these capacities he has assisted the companies with assembling management teams, boards of directors

and scientific advisory boards, formulating business and financial strategies, investor and public relations, and capital formation. Mr. Peizer has been a Director, Chairman of the Board and Chief Executive Officer of Hythiam, Inc., a healthcare services management company focused on delivering solutions for those suffering from alcoholism and other substance dependencies, since September 2003. Mr. Peizer has a background in venture capital, investing, mergers and acquisitions, corporate finance, and previously held senior executive positions with the investment banking firms Goldman Sachs, First Boston and Drexel Burnham Lambert. He received his B.S.E. in Finance from The Wharton School of Finance and Commerce.

**Daniel S. Goldberger**, age 48, serves as our President and Chief Operating Officer. Mr. Goldberger has been the Chief Executive Officer of Glucon Inc., a privately held glucose monitoring business since 2004. From 2001 to

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2004, Mr. Goldberger served as President and as a Director of the Medical Group of OSI Systems, Inc. (NASDAQ: OSIS), which included the Spacelabs, Dolphin, Osteometer product lines with combined revenue approaching $250 million. Mr. Goldberger was also the co-founder of Optiscan Biomedical Corporation, where he served as Director from 1994 to 2001 and also served as its Vice President from 1994 to 1998 and then as its President from 1998 to 2001. Mr. Goldberger has over 25 years of management experience with large and small medical device companies, including Nellcor and Square One Technology. He received his B.S.M.E. from Massachusetts Institute of Technology in 1979 and his M.S.M.E. from Stanford University in 1983.

**Victor Gura, M.D.**, age 65, has been the Chief Scientific Officer of National Quality Care, Inc. since 2005. He was formerly its Chairman of the Board, President and Chief Executive Officer. Dr. Gura is board certified in internal medicine/nephrology. He has been a director and principal shareholder of Medipace Medical Group, Inc. in Los Angeles, California, since 1980. Dr. Gura has been an attending physician at Cedars-Sinai Medical Center since 1984 and the medical director of Los Angeles Community Dialysis since 1985. He also serves as a Clinical Assistant Professor at UCLA School of Medicine. Dr. Gura graduated from the School of Medicine, Buenos Aires University in 1966, completed his residency in internal medicine and nephrology in Israel, and was a fellow at the nephrology departments at Tel Aviv University Medical School and USC Medical Center.

**Marc G. Cummins**, age 46, is a Managing Partner of Prime Capital, LLC, a private investment firm focused on consumer companies. Prior to founding Prime Capital, Mr. Cummins was managing partner of Catterton Partners, a private equity investor in consumer products and service companies with over $1 billion of assets under management. Prior to joining Catterton in 1998, Mr. Cummins spent fourteen years at Donaldson, Lufkin & Jenrette Securities Corporation where he was Managing Director of the Consumer Products and Specialty Distribution Group, and was also involved in leveraged buyouts, private equity and high yield financings. He has been a member of the board of Hythiam, Inc. Since June 2004. Mr. Cummins received a B.A. in Economics, magna cum laude, from Middlebury College, where he was honored as a Middlebury College Scholar and is a member of Phi Beta Kappa. He also received an M.B.A. in Finance with honors from The Wharton School at University of Pennsylvania.

**Hervé de Kergrohen, M.D.**, age 48, since August 2002 has been a Partner with CDC Enterprises Innovation in Paris, a European venture capital firm, and since January 2001 has been Chairman of BioData, an international healthcare conference in Geneva. He sits on several boards with U.S. and European private health care companies, including Kuros BioSurgery and Bioring SA in Switzerland since January 2003, Praxim SA and Biomethode in France since September 2003, and Hythiam, Inc. since September 2003 and Clearant, Inc. since December 2001. From February 1999 to December 2001 he was Head Analyst for Darier Hentsch & Co., then the third largest Geneva private bank and manager of its CHF 700 million health care fund. From February 1997 to February 1998 he was the Head Strategist for the international health care sector with UBS AGin Zurich. Dr. de Kergrohen started his involvement with financial institutions in 1995 with Bellevue Asset Management in Zug, Switzerland, the fund manager of BB Biotech and BB Medtech, where he covered the healthcare services sector. He was previously Marketing Director with large U.S. pharmaceutical companies such as Sandoz USA and G.D. Searle, specialized in managed care. Dr. de Kergrohen received his M.D. from Université Louis Pasteur, Strasbourg, and holds an M.B.A. from Insead, Fontainebleau.

**Jay A. Wolf**, age 34, is a co-founder and partner of Trinidad Capital a hedge fund investing in micro cap companies. Mr. Wolf has over ten years of investment and operations experience in a broad range of industries. His investment experience includes: senior and subordinated debt, private equity (including leveraged transactions), mergers & acquisitions and public equity investments. Since 2004, Mr. Wolf has served as a Managing Director of Trinad Capital. From 1999 to 2003, he served as the Executive Vice President of Corporate Development for Wolf Group Integrated Communications Ltd. where he was responsible for the company s acquisition program. From 1996 to 1999, Mr. Wolf worked at Canadian Corporate Funding, Ltd., a Toronto-based merchant bank in the senior debt department and subsequently for Trillium Growth, the firm s venture capital Fund. He sits on the boards of Shells Seafood Restaurants, Prolink Holdings Corporation, Optio Software, Inc., US Wireless Data Inc. and Starvox Communications, Inc. Mr. Wolf received a Bachelor of Arts from Dalhousie University.

**Nicholas S. Lewin** age 29, has been a private investor since 2000 operating in both the public and private markets. Mr. Lewin has invested across many industries, and throughout the capital structure. He invests in special situations

and in companies with innovative technologies and strong intellectual property. Generally, these are activist situations working with management. Representative industries include biotechnology, healthcare, telecom and media. Mr. Lewin sits on the boards of directors of VirnetX and Duramedic, both private companies. He holds a BA from Johns Hopkins University. Paizon Capital, which owns 35,714 shares of our common stock, is wholly-owned by Mr. Lewin s immediate family members.

On November 14, 2006, options to purchase 700,000 shares of our common stock were granted to Mr. Peizer for service as Chairman of our board, options to purchase 400,000 shares were granted to Mr. Goldberger for service as our President and Chief Operating Officer, and options to purchase 500,000 shares were granted to Dr. Gura for service as a director. On February 27, 2007 Messrs. Wolf, de Kergrohen and Lewin were granted options to purchase 100,000 shares each of our common stock.

Each of our directors has entered into our standard form of director Indemnification Agreement for service as directors. There are no family relationships among any of our directors or executive officers.

**Chief Financial Officer**

Effective January 2, 2007, Robert S. Stefanovich, age 42, became our interim Chief Financial Officer. From September 2002 through July 2006, Mr. Stefanovich served as Executive Vice President and Chief Financial Officer of Artemis International Solutions Corporation, a publicly traded software company. Prior to that, he held several senior positions, including Chief Financial Officer and Secretary of Aethlon Medical Inc., a publicly traded medical device company and Vice President of Administration at SAIC, a Fortune 500 company. Mr. Stefanovich also was a member of the Software Advisory Group and an Audit Manager with Price Waterhouse LLP s (now PricewaterhouseCoopers) hi-tech practice in San Jose, California and Frankurt, Germany. He received his Masters of Finance/Accounting and Engineering from University of Darmstadt, Germany.

There are no family relationships between Mr. Stefanovich and any of our directors or other executive officers, and he has not had a material interest in any of our transactions.

**Certifying Accountant**

Effective February 13, 2007, we dismissed Amisano Hanson, Chartered Accountants, and appointed BDO Seidman, LLP as our independent registered public accounting firm.

The decision regarding the end of the Amisano Hanson engagement and the commencement of the BDO Seidman, LLP engagement was made and approved by the Audit Committee of our Board of Directors after consideration of our current needs and position, including moving our operations from Canada to the United States during 2006, and the interpretation by the staff of the Securities and Exchange Commission interpreting Article 2 of regulation S-X to require the audit report on the financial statements of a registrant that is not a foreign private issuer to be rendered ordinarily by an auditor licensed in the United States.

Amisano Hanson s reports on our consolidated financial statements for each of the fiscal years ended December 31, 2005 and 2004 did not contain any adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope or accounting principles, except that they expressed substantial doubt about our ability to continue as a going concern. In connection with the audits of the fiscal years ended December 31, 2005 and 2004 and the interim period through February 13, 2007, there have been no disagreements between us and Amisano Hanson on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of Amisano Hanson, would have caused it to make reference in connection with their opinion to the subject matter of the disagreements.

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**ITEM 6. Exhibits.**

| No. | Description of Exhibit |
|---|---|
| 2.1 | Merger Agreement (1) |
| 3.1 | Certificate of Incorporation, as amended (1) |
| 3.2 | Bylaws, as amended (1) |
| 10.1* | Indemnification Agreement for directors (1) |
| 10.2* | Xcorporeal, Inc. 2006 Incentive Compensation Plan (1) |
| 10.3* | Employment Agreement of Daniel S. Goldberger (1) |
| 10.4 | License Agreement (1) |
| 10.5 | Irrevocable option Agreement |
| 10.6 | Contribution Agreement |
| 10.7* | Employment Agreement of Victor Gura, MD (2) |
| 31.1 | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1 | Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.2 | Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

* Management contracts, compensatory plans or arrangements.

(1) Incorporated by reference to exhibit of the same number to quarterly report on Form 10-QSB filed November 17, 2006.

(2) Incorporated by reference to Exhibit 10.1 to current report on Form 8-K filed December 1, 2006.

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**SIGNATURES**

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

Date: April 16, 2007

By: /s/ ROBERT S. STEFANOVICH
Robert S. Stefanovich
Interim Chief Financial Officer
(Principal Financial officer and
Principal Accounting officer)