

# MEDICSIGHT INC

## FORM 10-Q (Quarterly Report)

Filed 8/11/2005 For Period Ending 6/30/2005

Address	46 BERKELEY SQUARE LONDON UNITED KINGDO, W1Y 7FF
Telephone	212-406-4700
CIK	0001001601
Industry	Software & Programming
Sector	Technology
Fiscal Year	12/31

Powered By **EDGAR**  
Online

<http://www.edgar-online.com/>

© Copyright 2005. All Rights Reserved.

Distribution and use of this document restricted under EDGAR Online's Terms of Use.

---

---

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

**Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended **June 30, 2005**

**Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number **0-26886**

**MEDICSIGHT, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**13-4148725**

(I.R.S. Employer  
Identification No.)

**46 Berkeley Square, London, W1J 5AT, UNITED KINGDOM**

(Address of principal executive offices, including zip code)

**011- 44-20-7598-4070**

(Registrant's telephone number, including area code)

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

Indicate by check whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days Yes  No

Indicate by check whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act):

Yes  No

**APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY  
PROCEEDINGS DURING THE PRECEDING FIVE YEARS**

Indicate by check mark whether the registrant filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by court.

Yes  No

**APPLICABLE ONLY TO CORPORATE ISSUERS**

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: As of August 10, 2005: 34,240,381 shares of Common Stock, par value \$0.001 per share.

---

---

---

## NOTE REGARDING FORWARD LOOKING STATEMENTS

This Quarterly Report on Form 10-Q, including “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 2, contains forward-looking statements that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause the results of Medicsight, Inc and its consolidated subsidiaries (the “Company”) to differ materially from those expressed or implied by such forward-looking statements. All statements other than statements of historical fact are statements that could be deemed forward-looking statements, including any projections of revenue, gross margin, expenses, earnings or losses from operations, synergies or other financial items; any statements of the plans, strategies and objectives of management for future operations, including the execution of restructuring plans; any statement concerning developments, performance or industry rankings relating to products or services; any statements regarding future economic conditions or performance; any statements of expectation or belief; and any statements of assumptions underlying any of the foregoing. The risks, uncertainties and assumptions referred to above include the performance of contracts by suppliers, customers and partners; employee management issues; the difficulty of aligning expense levels with revenue changes; and other risks that are described herein, including but not limited to the specific risks areas discussed in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 2 of this report, and that are otherwise described from time to time in the Company’s Securities and Exchange Commission reports filed after this report. The Company assumes no obligation and does not intend to update these forward-looking statements.

The Company’s main operating currency is UK sterling (£).

## PART 1

### FINANCIAL INFORMATION

#### Item 1. Financial Statements

Medicsight, Inc. and its subsidiaries are collectively referred to in this Report as the “Company”. For purposes of the discussion contained herein, all financial information is reported on a consolidated basis. The financial statements for the Company’s fiscal quarter ended June 30, 2005 are attached to this Report, commencing at page F-1.

#### Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

##### BACKGROUND

Medicsight, Inc. is a software development business, focusing on the medical imaging market. Its core technology focuses on the development of automatic detection and analytical tools for clinicians to improve their ability to diagnose and treat diseases through early detection.

Originally incorporated as a Utah corporation in 1977. On December 19, 2000, Medicsight, Inc. entered into an Agreement and Plan of Merger with its wholly owned subsidiary HTTP Technology, Inc., a Delaware corporation, and thereby effected a re-incorporation of the Company from Utah to Delaware. All references in this Quarterly Report to “the Company”, “we” or “us” are to Medicsight, Inc., the Delaware corporation and subsidiaries, if the referenced event occurred on or after December 19, 2000 or to HTTP Technology, Inc., the Utah corporation and subsidiaries, if the referenced event occurred prior to December 19, 2000. On January 27, 2004 the Company increased its authorized share capital from 25,000,000 shares to 40,000,000 shares.

During the six months ended June 30, 2005 the Company issued approximately 754,000 shares of restricted stock raising \$2,714,000 (net of commissions paid to Asia IT, a related party) as part of a private placement.

The Company maintains its corporate offices at 46 Berkeley Square, London, W1J 5AT, United Kingdom, telephone +44-20-7598-4070, facsimile: +44-20-7598-4071, Internet address: <http://www.medicsight.com/>.

##### BUSINESS STRATEGY

Developers of enterprise computer aided detection (“CAD”) software technology for medical diagnostic applications applicable across differing business models. There are five principal operating subsidiaries: Medicsight PLC (“MS-PLC”), Lifesyne UK Limited (“Lifesyne UK”), Medicsight USA, Inc (“MS-US”) (previously Lifesyne US) Medicsight International Limited (“MIL”) and Medicsight Asset Management Limited (“MAM”).

*MS-PLC.* The majority-owned subsidiary, MS-PLC, is currently developing CAD software that allows clinicians to better interpret medical images acquired through a radiological device. This in turn helps them detect earlier some of the world’s most common causes of premature death. At June 30, 2005, the Company owned 70,677,300 ordinary shares in MS-PLC, constituting 81.8% of the outstanding shares.

*Lifesyne UK.* Lifesyne is a wholly owned subsidiary of MS-PLC that was established in September 2002. Lifesyne operates a scanning center in Westminster, London in the United Kingdom. In addition to providing scanning services, Lifesyne focuses on the rapid acquisition of patient CT scan data necessary to train and validate the Medicsight CAD software.

*MS-US.* MS-US (previously Lifesyne US) is also a wholly owned subsidiary of MS-PLC, was established to co-ordinate operations in the United States of America and is based in Nashville, Tennessee.

*MIL.* MIL, a wholly owned subsidiary of MS-PLC, was established to co-ordinate operations outside the United States of America and Europe and is based in Geneva, Switzerland. It has established further offices in China and Japan.

*MAM.* MAM is also a wholly owned subsidiary of MS-PLC that was established in September 2002 for the purpose of acquiring fixed assets on behalf of the operating entities in the group. As Lifesyne's strategy changed MAM's business was limited so all assets were transferred to MS-PLC or Lifesyne at market value on December 31, 2004. MAM has ceased trading now that all of its assets have been disposed of.

Medicsight is a medical imaging software company. The Company's core technology is focused on the development of CAD software for clinicians to improve their ability to diagnose and treat diseases. For the last four years the Company has been working on developing algorithms in this area through a team of over 30 scientists and software developers.

Medicsight has focused so far on 3 therapeutic areas – three of the leading causes of premature death, coronary heart disease, lung cancer and colorectal cancer. Between them these diseases are responsible for over 8.5 million premature deaths globally. There's increasing evidence in all three areas that early detection leads to an improved life expectancy and this fact has been a core focus of our product development. However, our technology is scalable to many other disease areas. Plans are already underway to research this potential.

The Company has to date primarily focused on multi slice computed tomography ("CT") scan analysis. In the world today there are over 120 million scans done a year. Over a third of these are conducted in the U.S and, of that number, around seven million scans are lung scans and approximately one million are heart scans. These are nearly all diagnostic scans – that is, scans on patients with symptoms. When screening of asymptomatic patients begins (scans of patients without specific symptoms), these figures are expected to increase dramatically. The Company's technology is equally applicable to magnetic resonance imaging ("MRI") and Medicsight has begun research into brain diseases with a leading global institution.

#### Mission Statement

The Company aims to be a leading developer of CAD software in the medical imaging market. It will be successful in selling high-quality and innovative products to this market by:

- Continued investment in the scientists that are developing the software products.
- Continued investment in creating a global network of third party distribution partners.
- Continued investment in the development of a network of the worlds leading experts within each relevant disease area.
- Continued investment in building the worlds largest verified CT scan databases.

#### Corporate Strategy Objectives

- Developing the broadest range of detection and analysis products in CT and MRI technology
- Working with third parties to develop the necessary distribution channels
- Developing a strategic presence in Asia
- Making selective acquisitions/partnerships that broaden
  - Product range/rate of product development
  - Geographic scope
  - The skills base

### What differentiates the Company

We differentiate ourselves from the competition by delivering to the market innovative and market leading products that are clinically developed and supported by the world's leading scientists and physicians. We are able to accomplish this by focusing on the following:

- Commercial agreements with key distribution partners that allow the efficient and cost effective delivery of our products to the market
- Relationships with the leading scientists and physicians in the world
- Access to the largest and highest quality of patient and scan databases

### How does this evidence itself?

Over the past year we have signed definitive agreements with Vital Images, the exclusive provider of 3-D workstations for Toshiba Medical and TeraRecon to distribute our products. We believe that these partners will allow our company to sell our products in an efficient and cost effective manner to a vast majority of the imaging market.

In each of our core product areas (heart, lung and colon) we have attracted leading medical experts in radiology, including Drs Henschke and Yankelwitz from Cornell, the leading world opinions in lung cancer screening. In addition Dr Pickhardt who conducted the ground breaking colon study published in New England Medical Journal in December 2003 has agreed to participate. Doctors of this caliber are integral to our product strategy and our data collection strategy.

The third area, after science and medical expertise, is data which is crucial to the training and testing of our products. The more data available the better opportunity of significantly improving product performance and we have, we believe access to the world's largest lung and colon scan databases. However, it's not just quantity of data that is important. Our databases include patient management histories and the observed outcomes that can then be correlated with the original CT scan findings. Thus these databases that include outcome data, will allow us to go beyond basic nodule or polyp detection to diagnostic and therapeutic prediction. As the databases grow and our access to them increases, it will enable the Company to continue to stay ahead of the field in the area of data acquisition and analysis and thus improve the reliability of image prediction which is at the core of the Company's software products. We believe that this is an important area of differentiation from our competition.

### Product Portfolio

Our products currently target three therapeutic areas: colon, lung and heart.

The software products are called:

Medicsight Colon CAD

Medicsight Lung CAD

Medicsight Heartscreen

Medicsight introduced a number of innovations to the market in 2004:

- The first approved "joint read" detection products
- The first colon neoplasm detection product
- The first adjustable filter system to allow radiologists to adjust their diagnostic prediction settings to suite their requirements

Medicsight is the first company to use the term, Computer Assisted Reader™ or CAR™, a term gaining much industry usage. CAR signifies “joint-read” software that assists radiologists in detecting and evaluating lesions or nodules found during CT scans of the lung or colon. Unlike current “second-read” software, in which software is employed after radiologists have completed their reviews, joint-read software enables the radiologist to review “unfiltered” images side-by-side and simultaneously with software-enhanced regions of interest. For a radiologist reviewing up to 600 images from a single CT scan, the “joint-read” capability saves time, increases efficiency while decreasing the risks of failing to identify a nodule of importance and ultimately aids in the evaluation of nodules.

There is increasing evidence in all three areas that early disease (cancer) detection leads to an improved life expectancy and this has been a core focus of our product development. However, our technology is also applicable to many other diseases and we are already starting to plan for these developments.

In terms of clinical practice and therefore market segmentation, the products can be split between diagnostic treatment and screening;

*Diagnostic; incidental “disease detection” and “disease tracking”* . These products have been designed to be used in for symptomatic patients but to detect other diseases incidental to those for which the investigation was originally requested. Subsequently, these incidentally identified lesions may be tracked so that their progress may be monitored by measurement. The primary applications in this area are Lung nodule tracking and Heart calcium scoring. However, the Company believes there will be a growing requirement for colorectal as a consequence of the increased usage of CT colonography.

*“ Screening” products ; population screening of asymptomatic patients* . There is much evidence to demonstrate that the early detection of colon, lung and heart diseases leads to an improved life expectancy. CAD CT will provide a cost effective solution to identify such diseases sufficiently early to alter the economics (costs per life year saved) of population screening programs.

In October 2004, MS-PLC received approval from the U.S. Food and Drug Administration (“FDA”) for its Colon CAD product, an image analysis software tool that is used with CT colonography (“virtual colonoscopy”) to assist radiologists to search for and measure colorectal polyps. Virtual colonoscopy uses a CT scanner to generate both two-dimensional and three-dimensional views of inside of the colon in a non-invasive fashion. By contrast, traditional colonoscopy, in which a viewing instrument is physically inserted into the bowel is an invasive procedure with a well recognized morbidity and complication rate. Colorectal cancers most often start when malignant cells form within pre-existing benign polyps that are part of the inner surface of the large bowel. Detection and removal of these preexisting polyps can prevent them from developing into invasive tumors.

Medicsight Colon CAD works by using MS-PLC’s CAR technology to deploy a series of filters against image data derived from CT colonographies. These filters highlight spherical areas of the image as small as 5 mm (the size of a small pea), which could be potential polyps. The radiologist is also able to manually highlight any other irregularities for closer inspection. Once suspect polyps are found, the software can precisely identify their boundaries and features and show them in 3D with a volume measurement, diameter, shape and location. This allows the radiologist to accurately review and track any growth in the polyps with a repeated CT scan.

In July 2004, MS-PLC received approval from the FDA and Conformité Européenne (“CE”) certification for its Lung CAD product; an image analysis software tool that assists radiologists to evaluate lesions or nodules found during CT scans of the lung. MS-PLC’s Lung CAD is the first “joint-read” software available for CT lung scans.

Lung CAD works by deploying a series of filters against the image data derived from CT scans. The software has a number of automatic and manual measurement tools to aid diagnosis, including 3D volume measurement and the ability to review follow up scans and tumor doubling times.

The Company's heart product, Heartscreen received FDA approval in November 2003. Heartscreen is a software application for annotating MSCT scans of the heart used by radiologists to identify coronary artery calcium ("CAC"). The reason we consider that this software product is superior to others in its category because of its extensive segmentation capabilities, which enable the radiologist to accurately extract the CAC boundary and therefore accurately measure it. This means that the radiologist can accurately track CAC increase or regression.

#### *Business Development*

In the last year, contracts have been signed with both Vital Images (for Colon CAD) and TeraRecon (for Lung CAD and Colon CAD). These agreements are the first of their kind for the Company and represent a major step forward in the Company's plans to commercialize its advanced imaging technology on a worldwide basis. The intent is to incorporate MS-PLC's software into the companies' existing product offerings.

Vital Images has now successfully integrated MS-PLC's Colon CAD software into its CT colon product InnerviewGI™. Its commercial launch is intended to be at the Boston VC conference in Boston during October 2005.

In April 2005 the Company signed a Letter of Intent with a major Japanese distributor to integrate MS-PLC's Colon CAR™ software product into the workstations of its Japan distribution partner.

On the marketing side the Company achieved success in 2004, with a significant number of articles in the medical press concerning the Company and its products culminating in being voted "Best Industry Newcomer" by AuntMinnie (www.auntminnie.com) at the Radiological Society of North America 2004 conference. These articles can be viewed on our website: www.medicsight.com.

#### *Expanding distribution*

Medicsight aims to build on the progress made in 2004 by announcing new distribution partnerships in 2005 that will both expand the geographic scope and depth of our market penetration. The Company's aim is for an additional three to five partners to be signed up during 2005, in its strategic territories (USA, Europe, China and Japan).

Significant business development has already taken place that has led to an announcement regarding a Colon CAD distribution arrangement in Japan and plans to finalize agreements for distribution of our Lung CAD software product in Japan in the fourth quarter of 2005.

The Company sees Japan and China, in particular, as strategically important and the Company believes that the significant business development to date should lead to further announcements in these areas this year.

#### *Expanding product range and range of technologies*

Whilst there is a significant ongoing investment in internal new product development programmes, the company is always seeking to build on its leading position. The market for advanced software applications is still embryonic, its ultimate structure remains to be defined; we aim to be one of the leaders and drivers of these changes and ultimately one of the consolidators in the sector.

Medicsight has stated as part of its corporate objectives that it will expand its operations via acquisition to fill gaps in technology or product. During 2005 we aim to put this general principal into practice. A number of interesting targets have been identified already that will enhance our ability to offer innovative, integrated clinical solutions to our partners. We believe that, in this way we are in an excellent position to develop differences between the competition and ourselves in this way. MS-PLC is also reviewing other potential distribution channels including a web-based browser.

### International Advisory Boards

As the Company's strategy has evolved, particularly, after the decision to concentrate our efforts on software development and international product distribution, we have acted to align our medical advisory mechanisms to the new circumstances. The Company has therefore set up three International Advisory Boards ("IAB"). The IABs have recruited and will continue to recruit individuals with the relevant expertise to become members and encourage the involvement of the radiologists undertaking beta testing of our products, providing data for software development and participating in our scientific program.

Some members of the original Medical Board have accepted appointments to the new IABs. New members will include persons with relevant expertise from the United States, Germany, France, Italy, China and Japan. The IABs are co-chaired by Dr. John Costello (MS-PLC's medical director), who reports back to the MS-PLC Board; however, much of the scientific advice and leadership will be provided through a co-chairman, chosen from the IAB members.

#### *Terms of Reference of the International Advisory Board*

The IABs will meet twice a year and fulfill the following roles:

- Advise on the development and application of Medicsight CT image analysis software in the territories represented.
- Provide links to users of CT image analysis systems in their respective territories.
- Assist in investor relations on an international basis.
- Advise on, and participate in, clinical development programs for the Company's software.
- Act as advisors in relation to regulatory submissions for the Company's products.
- Advise on sources of library data (CT scans) to support training and development of the Company's software.

#### *Objectives of the International Advisory Board*

The objectives of the IAB meetings may be varied from time-to-time, as agreed with MS-PLC, but will include the following:

- Ensure that members have a full understanding of the Medicsight technology and are motivated to participate in its development and application, both locally and internationally.
- Ensure that the clinical development program is compatible with local clinical practice.
- Ensure that the clinical development program is compatible with local regulatory guidelines.
- Obtain insight into local issues with respect to marketing of the Company's products.

#### Risk Factors

We cannot assure you that the Company will be successful in commercializing the Medicsight™ system, or if such a system is commercialized, that its use will be profitable to the Company. We face obstacles in commercializing our core technology and in generating operating revenues such as, but not limited to, successful development, testing of and gaining regulatory approval for the technology.

The Company does not believe that there is currently any comparable system that is competitive with the Medicsight™ system. There are computer-aided diagnostic systems that operate in the field, but, in our view, such other systems are overly dependent on human resources to carry out the analysis, as none have the automated capability of the Medicsight™ system.

The Company has had only a limited operating history upon which an evaluation of its prospects can be made. The Company's prospects must be considered keeping in mind the risks, expenses and difficulties frequently encountered in the establishment of a new business in an ever-changing industry. There can be no assurance that the Company will be able to achieve profitable operations.

The Company has identified a number of other specific risk areas that may affect the Company's operations and results in the future:

*Technical Risks.* The Medicsight™ system may not deliver the levels of accuracy and reliability needed, or the development of such accuracy and reliability may be delayed.

*Market Risks.* The market for the Medicsight™ system may be slower to develop or smaller than estimated or it may be more difficult to build the market than anticipated. The medical community may resist the Medicsight™ system or be slower to accept it than we expect. Revenues from the Lifesyne™ scanning centers and the licensing of the Medicsight™ system may be delayed or costs may be higher than expected which may result in the Company requiring additional funding.

*Regulatory Risks.* The Medicsight™ system is subject to regulatory requirements in both the United States and Europe. Approvals may not be obtained, may be delayed or incur additional cost to the Medicsight™ system.

*Competitive Risks.* There are a number of groups and organizations, such as software companies in the medical imaging field, scanner manufacturers, screening companies and other healthcare providers that may develop a competitive offering to the Medicsight™ system. In addition these competitors may have significantly greater resources than the Company. We cannot make any assurance that they will not attempt to develop such offerings, that they will not be successful in developing such offerings or that any offerings they do develop will not have a competitive edge over the Medicsight™ system.

*Financial Risk.* These consolidated financial statements are presented on the basis that the Company will continue as a going concern. The going concern concept contemplates the realization of assets and satisfaction of liabilities in the normal course of business over a reasonable length of time. The Company has incurred significant operating losses since inception. As a result, the Company has generated negative cash flows from operations, and has an accumulated deficit at June 30, 2005 and there is uncertainty with respect to the availability and the utilization of its credit facility with Asia IT Capital Investments Limited (a related party) – see Note 3. The Company is operating in a developing industry based on new technology and its primary source of funds to date has been through the issuance of securities and borrowed funds. The Company is currently seeking additional funding and is actively developing the technology in order to bring it to market.

*Foreign Exchange Risks.* As the Company's operating currency is UK sterling (£) and its financial statements are reported in US Dollars, the Company's assets and liabilities and its results of operations are affected by movements in the \$: £ exchange rate.

*Other Risks.* The Company's ability to deliver its software could be hindered by risks such as the loss of key personnel or the patents and trademarks being successfully challenged or credit facilities being reduced or terminated by lenders.

## RESULTS OF OPERATIONS

*Revenues.* For the six months ended June 30, 2005 and June 30, 2004, the Company's gross revenues from operations were \$282,000 and \$288,000, respectively. For the quarters ended June 30, 2005 and June 30, 2004, the Company's gross revenues from operations were \$131,000 and \$136,000, respectively. The Company's revenues are derived from the Company's Lifesyne™ scanning operations.

*Selling, General and Administrative Expenses.* The Company's selling, general and administrative expenses for the six months and quarter ended June 30, 2005, were \$5,512,000 and \$2,892,000 respectively as compared to \$6,110,000 and \$2,959,000 for the six months and quarter ended June 30, 2004 respectively.

The primary components of the decreased selling, general and administrative expenses for the six months ended June 30, 2005 were decreases in professional fees, regulatory costs, software license fees and travel costs. This was offset slightly by increases in staff and public relation costs as the Company initiated its various marketing strategies.

### Significant elements of SG&A costs

	(\$000's)			
	Six months ended	Quarter Ended	Six months ended	Quarter ended
	June 30, 2005		June 30, 2004	
Salaries and directors' compensation	2,037	975	1,851	862
Payroll taxes and other staff costs	396	201	404	171
Professional fees	555	253	653	292
Property rent	531	263	538	267
Property service charges	315	191	271	193

*Research and Development Cost.* The Company's research and development cost for the six months and quarter ended June 30, 2005, was \$ 1,163,000 and \$524,000 respectively as compared to \$1,520,000 and \$851,000 for the six months and quarter ended June 30, 2004 respectively. The Company's research and development costs are comprised of staff and consultancy costs expensed on the Medicsight™ system.

*Income Tax Benefit Realized.* The receipt of \$883,000 relates to a tax credit paid by the United Kingdom taxation authorities under its R&D tax relief scheme for small and medium enterprises to MS-PLC. The tax credit can either be set-off against taxable profits or, if not available, can be paid. If it is paid then this is set-off against the net operating loss carry forwards. The basis for the R&D relief is too encourage the development of new technologies and is only applicable to the research and development of a new technology and not a product.

The receipt represents the tax credit received for expenditures incurred between November 2001 and December 2003. The Company has not accrued for any potential tax credit for Fiscal 2004 as it has yet to accurately determine the completion date of the new technology (beyond estimating it occurred in the first half of 2004),

or the value of any tax credit or make the application to the United Kingdom tax authorities under the relevant legislation. The Company believes it is prudent to recognize this benefit when notified by the taxing authority due to the uncertainty of the timing or amount of any relief. No application will be made for Fiscal 2005.

*Net Loss and Net Loss per Share.* Net loss was \$5,458,000 and \$2,364,000 respectively for the six months and quarter ended June 30, 2005 as compared to a net loss of \$6,737,000 and \$3,203,000 for the six months and quarter ended June 30, 2004. Net loss per share for the six months and quarter ended June 30, 2005 was \$0.16 and \$0.07 respectively, based on weighted average shares outstanding of 33,465,092 and 33,626,070 respectively, as compared to a net loss per share for the six months and quarter ended June 30, 2004 was \$0.23 and \$0.10 respectively, based on weighted average shares outstanding of 28,762,025 and 31,388,185 respectively.

The decrease in net losses for the six months and quarter to June 30, 2005 as compared to the six months and quarter to June 30, 2004 are due to decreases in selling, general and administrative expenses, research and development costs and the receipt of the R&D tax credit under a United Kingdom taxation scheme.

## LIQUIDITY AND CAPITAL RESOURCES

*Working Capital Information as at June 30:*

	(\$000's)	
	June 30, 2005	December 31, 2004
Cash and Cash Equivalents	3,351	5,276
Current Assets	4,064	6,515
Current Liabilities	(2,361)	(2,353)
Working Capital Surplus	1,703	4,162
Ratio of Current Assets to Current Liabilities	1.72	2.77

*Net Decrease in Cash and Cash Equivalents.* During the six months ended June 30, 2005, the Company's cash and cash equivalents decreased by \$1,925,000. This decrease was primarily the result of cash flows received from shares issued by the Company being exceeded by the net cash used in operating activities. The Company used net cash of \$4,613,000 in operations. The Company received net cash of \$2,381,000 in financing activities and received \$219,000 from investing activities.

*Net Cash Used in Operations.* The use of cash in operations of \$4,613,000 in the six months ended June 30, 2005, was attributable to the Company's relatively minimal revenues at the same time that the Company incurred significant operating and software research and development costs. The effect of these costs was reduced by the tax credit of \$883,000 received by MS-PLC. These significant costs included professional fees, salaries and director compensation, marketing, regulatory costs and property service charges and rent. The Company used cash in operations in the six months ended June 30, 2004 of \$7,744,000.

*Net Cash provided by Investing Activities.* In the six months ended June 30, 2005, the Company had a net cash inflow from investing activities of \$219,000. On May 25, 2005 Medicsight's indirect subsidiary MAM completed the sale of the CT Lightspeed 16 scanner located at the redundant test center at Ravenscourt Hospital in West London for \$300,000, net of applicable sales tax, to GE Medical Systems. Additionally, the Company purchased \$81,000 in fixed assets in the same period. In the six months ended June 30, 2004 the Company had a net cash outflow from investing activities of \$121,000. The Company used the funds to purchase additional fixed assets.

*Net Cash Provided by Financing Activities.* In the six months ended June 30, 2005, the Company had a net cash inflow from financing activities of \$2,381,000. The funds received in the six months ended June 30, 2005, consisted of \$2,714,000 from the Company's private offerings less \$333,000 used to settle the lease outstanding on the CT Lightspeed 16 scanner sold by MAM. For the six months ended June 30, 2004, the Company had a net cash inflow from financing activities of \$18,218,000. The funds received consisted of \$20,931,000 received from the private offering of the Company's stock, which were partly used to reduce the bank overdraft (\$196,000) and to repay the short term debt – related party by \$2,470,000.

*Stockholders' Equity.* The Company's stockholders' equity at June 30, 2005 was \$15,573,000, including an accumulated deficit of \$(183,956,000), as compared to \$18,465,000 at December 31, 2004, including an accumulated deficit of \$(178,498,000). Additional paid-in capital was \$199,365,000 and \$196,652,000, at June 30, 2005 and December 31, 2004 respectively. The increase in stockholders' equity was a result of an increase in additional paid-in capital of \$2,714,000 resulting from the placement of the Company's stock offset by an increase in accumulated deficit of \$5,458,000.

*Additional Capital.* The Company will require additional capital during its fiscal years ending December 31, 2005 and 2006 to implement its business strategies, including cash for payment of increased operating expenses such as salaries for additional employees. Such additional capital may be raised through additional public or private equity offerings, as well as borrowings and other resources. Currently, the Company has two available lines of credit.

On December 15, 2000, the Company entered into an unsecured credit facility with Asia IT that provides a \$20,000,000 line of credit. Such line of credit originally expired on December 31, 2001, but has been extended until December 31, 2006. Interest on advances under the credit facility accrues at 2% above US LIBOR. The Company can draw down on this credit facility for its financing requirements, upon approval by the Company's Board of Directors and subject to approval by Asia IT (such approval not to be unreasonably withheld). The Company is restricted from borrowing funds, directly or indirectly, other than through the credit facility with Asia IT, without the consent of Asia IT. The availability of the credit facility reduces upon the Company's sale of any of its investment assets. The amounts drawn and interest charged under this facility are repayable on demand or at the maturity of the facility.

On November 20, 2001, Asia IT entered into a £10,000,000 (\$18,000,000) credit facility with MS-PLC. Such facility matures on December 31, 2006 and is secured by a lien on all assets of MS-PLC. Interest on outstanding amounts accrues at 2% above GBP LIBOR. The loan is convertible into ordinary shares in MS-PLC on announcement of an Offer to Subscribe, Placing or other public offering of its ordinary shares, at the same price per share as the offering price.

At June 30, 2005, the Company had not drawn down any funds under the \$20,000,000 facility with Asia IT, and MS-PLC had not drawn down any funds under its £10,000,000 (\$18,000,000) facility with Asia IT.

To the extent that additional capital is raised through the sale of equity or equity-related securities of the Company or its subsidiaries, the issuance of such securities could result in dilution to the Company's stockholders. No assurance can be given, however, that the Company will have access to the capital markets in the future, or that financing will be available on acceptable terms to satisfy the Company's cash requirements to implement its business strategies. If we are unable to access the capital markets or obtain acceptable financing, our results of operations and financial conditions could be materially and adversely affected. We may be required to raise substantial additional funds through other means. The products derived from our proprietary software, including the Medicsight™ system, are expected to account for

substantially all of our revenues from operations in the foreseeable future. Our technology has not yet been fully commercialized and we have not begun to receive any significant revenues from commercial operations. We cannot assure our stockholders that our technology and products will be commercialized successfully, or that if so commercialized, that revenues will be sufficient to fund our operations. If adequate funds are not available to us, we may be required to curtail operations significantly or to obtain funds through entering into arrangements with collaborative partners or others that may require us to relinquish rights to certain of our technologies or products that we would not otherwise relinquish.

### Critical Accounting Policies

The Securities and Exchange Commission requested that all registrants list their most critical accounting policies in the Management's Discussion and Analyses of Financial Condition and Results of Operations. The Securities and Exchange Commission indicated a "critical accounting policy" is one which is both important to the portrayal of the company's financial condition and results and requires management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. We believe that the following accounting policies fit the definition of critical accounting policies.

*Revenue Recognition.* We expect to earn our revenue primarily from software licenses and related services. Our revenue is recognized in accordance with Statement of Position 97-2 (SOP 97-2), as amended by Statement of Position 98-9. Currently the Company's revenues derive from its scanning services operated by Lifesyne<sup>TM</sup>. Scan revenue is recognized when the service is delivered.

The recognition of revenues from software licenses and related services will require more difficult and complex judgments. The terms of the license contract, long-term (over 12 months), short-term, cancelable, non-cancelable or per scan for example will affect the recognition of revenues from services such as up-front fees (for example installation, activation and up-front license fees), on-going license fees, upgrade fees, termination fees and maintenance fees. Where fees are received prior to any service being delivered the fees are deferred until the related service has been delivered successfully and the revenue can then be recognized. Again if there are fees that relate to any "milestone" agreements these are deferred until the "milestone" has passed and then the revenue can be recognized.

The Company believes that the accounting estimates related to the recognition of revenue and establishment of reserves for uncollectable amounts in the results of operations is a "critical accounting estimate" because: (1) it requires management to make assumptions about future collections, and (2) the impact of changes in actual performance versus these estimates on the accounts receivable balance reported on our consolidated balance sheets and the results reported in our consolidated statements of operations could be material. Further the Company has no history of uncollectable amounts and therefore must initially look to the estimates for the industry or particular companies that the management feels operate in a similar environment in addition to any current market indicators about general economic conditions that might impact the collectability of accounts.

*Research and Development.* Costs incurred in connection with the development of software products that are intended for sale are accounted for in accordance with Statement of Financial Accounting Standards No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed". Costs incurred prior to technological feasibility being established for the product are expensed as incurred. Technological feasibility is established upon completion of a detail program design or, in its absence, completion of a working model. Thereafter, all software production costs are capitalized and subsequently reported at the lower of unamortized cost or net realizable value. Capitalized costs are amortized based on current and future revenue for each product with an annual minimum equal to the straight-line amortization over the remaining estimated economic life of the product. Amortization commences when the product is available for general release to customers.

The Company decided that capitalizing such expenditure was inappropriate because of the difficulty in assigning costs accurately to the various software products and versions being developed as technical and development staff are moved from product to product and version to version on a regular basis. Therefore

the Company has decided to expense all research and development costs. The Company's research and development costs are comprised of staff and consultancy costs expensed on the Medicsight™ system.

*Impairment of Long-lived Assets and Long-lived Assets To Be Disposed of.* The Company evaluates the carrying value of long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company's assessment for impairment of an asset involves estimating the undiscounted cash flows expected to result from use of the asset and its eventual disposition. An impairment loss recognized is measured as the amount by which the carrying amount of the asset exceeds the fair value of the asset.

Calculating the estimated fair value of the asset involves significant judgments and a variety of assumptions. Judgments that the Company makes concerning the intangible acquired include assessing time and cost involved for development, time to market, risks of regulatory failure or obsolescence (due to market, environmental or technological advances for example). For calculating fair value based on discounted cash flows, we forecast future operating results and future cash flows, which includes long-term forecasts of revenue growth, gross margins and capital expenditures.

*Impairment of Excess of Purchase Price Over Net Assets Acquired.* The Company adopted SFAS No. 142 on January 1, 2002. Under this standard, goodwill will no longer be amortized over its estimated useful life, but will be tested for impairment on an annual basis and whenever indicators of impairment arise. Under the provisions of SFAS No. 142, any impairment loss identified upon adoption of this standard is recognized as a cumulative effect of a change in accounting principle. Any impairment loss incurred subsequent to the initial adoption of SFAS No 142 is recorded as a charge to current period earnings.

Under this standard, goodwill is tested for impairment on an annual basis or wherever indicators of impairment arise.

#### Recent Accounting Pronouncements

In May 2005, the Financial Accounting Standards Board ("FASB") issued Statement 154, "*Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20 and FASB Statement No. 3.*" The standard requires retrospective application to prior periods' financial statements of a voluntary change in accounting principle unless it is deemed impracticable. The standard states that a change in method of depreciation, amortization or depletion for long-lived, non-financial assets be accounted for as a change in accounting estimate that is affected by a change in accounting principle. The standard is effective for accounting changes and corrections of errors made occurring in fiscal years beginning after December 15, 2005. The adoption of Statement of Financial Accounting Standards ("SFAS") No. 154 is not expected to have a material impact on the Company's financial position or results of operations.

In December 2004, the FASB issued Statement 153, "*Exchanges of Non-monetary Assets, an amendment of APB Opinion No.29.*" The standard is based on the principle that exchanges of non-monetary assets should be measured based on the fair value of the assets exchanged and eliminates the exception under APB Opinion No. 29 for an exchange of similar productive assets and replaces it with an exception for exchanges of non-monetary assets that do not have commercial substance. The standard is effective for non-monetary exchanges occurring in fiscal periods beginning after June 15, 2005. The adoption of SFAS No. 153 is not expected to have a material impact on the Company's financial position or results of operations.

In December 2004, the FASB issued Statement 123 (revised 2004), "*Share-Based Payment.*" The standard eliminates the disclosure-only election under the prior SFAS 123 and requires the recognition of compensation expense for stock options and other forms of equity compensation based on the fair value of the instruments on the date of grant. The standard is effective for fiscal years beginning after June 15, 2005.

In November 2004, the FASB issued Statement 151, "*Inventory Costs.*" The standard clarifies that abnormal amounts of idle facility expense, freight, handling costs, and wasted materials should be

recognized as current-period charges and requires the allocation of fixed production overheads to inventory based on the normal capacity of the production facilities. The standard is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The adoption of SFAS No. 151 is not expected to have a material impact on the Company's financial position or results of operations.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

#### Interest Rate Risk

The Company's exposure to market risk associated with changes in interest rates relates to its debt obligations. The Company has the following debt facilities, which are all repayable on demand:

<u>Debt Holder</u>	<u>Facility</u>	<u>Draw Down</u>	<u>Interest rate</u>	<u>At June 30</u>
Asia IT Capital Investments Ltd	\$ 20,000,000	\$ nil	US Libor + 2%	5.88%
Asia IT Capital Investments Ltd	\$ 18,000,000	\$ nil	GBP Libor + 2%	6.53%

A hypothetical 100 basis point increase in interest rates would increase interest cost by approximately \$nil per annum assuming no further draw downs or repayments are made.

#### Foreign Exchange Risk

The Company holds limited cash balances in British Pounds so any adverse movements in the exchange rates are considered immaterial.

As the Company's operating currency is UK sterling (£) and its financial statements are reported in US Dollars, the Company's assets and liabilities and its results of operations are affected by movements in the \$: £ exchange rate.

#### **Item 4. Controls and Procedures**

##### *Evaluation of Disclosure Controls and Procedures*

As required by Rule 13a-15(b) under the Exchange Act, our management carried out an evaluation of the effectiveness of the design and operation of the Company's "disclosure controls and procedures" as of June 30, 2005. This evaluation was carried out under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer. As defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, disclosure controls and procedures are controls and other procedures of the Company that are designed to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of June 30, 2005. It should be noted that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

##### *Changes in Internal Control over Financial Reporting*

As required by Rule 13a-15(d) under the Exchange Act, our management, including our Chief Executive Officer and Chief Financial Officer, also conducted an evaluation of our internal control over financial reporting to determine whether any change occurred during the quarter ended June 30, 2005, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. Based on that evaluation during the quarter ended June 30, 2005 there has been no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

The Company is currently undergoing a comprehensive effort in preparation for compliance with Section 404 of the Sarbanes-Oxley Act of 2002. This will involve the documentation, testing and review of our internal controls under the direction of senior management.

## **PART II**

### **Item 1. Legal Proceedings**

There are currently no pending legal proceedings.

### **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

Between January 1, 2005 and June 30, 2005 the Company issued 754,000 shares of common stock at \$4.00 per share to a number of institutional investors and private individuals as part of a private placement raising approximately \$2,714,000 net of commissions payable to Asia IT, a related party. The shares of common stock were issued without registration in reliance upon the exemption provided by Section 4(2) of the Securities Act of 1933.

### **Item 3. Defaults Upon Senior Securities**

None.

### **Item 4. Submission of Matters to a Vote of Security Holders**

None.

### **Item 5. Other Information**

None.

**Item 6. Exhibits and Reports on Form 8-K**

(a) Exhibits

31.1 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Chief Executive Officer - filed herewith).

31.2 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Chief Financial Officer - filed herewith).

32.1 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chief Executive Officer - filed herewith).

32.2 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chief Financial Officer - filed herewith).

(b) Reports on Form 8-K

None

**MEDICSIGHT, INC. AND SUBSIDIARIES**

**INDEX TO CONDENSED CONSOLIDATED FINANCIAL  
STATEMENTS (UNAUDITED)  
AS OF AND FOR THE THREE AND SIX MONTH PERIODS ENDED  
JUNE 30, 2005**

Condensed Consolidated Balance Sheets as of June 30, 2005 (Unaudited) and December 31, 2004	F-2
Condensed Consolidated Statements of Operations for the Three Months Ended June 30, 2005 (Unaudited) and the Three Months Ended June 30, 2004 (Unaudited)	F-3
Condensed Consolidated Statements of Operations for the Six Months Ended June 30, 2005 (Unaudited) and the Six Months Ended June 30, 2004 (Unaudited)	F-4
Condensed Consolidated Statement of Cash Flows for the Six Months Ended June 30, 2005 (Unaudited) and the Six Months Ended June 30, 2004 (Unaudited)	F-5
Notes to Condensed Consolidated Financial Statements	F-6 to F-10

**MEDICSIGHT, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(In \$ thousands)

	<b>June 30, 2005</b>	<b>December 31, 2004</b>
	<b>(unaudited)</b>	
<u>ASSETS</u>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 3,351	\$ 5,276
Accounts receivable	27	26
Other receivables	119	28
Prepaid expenses	469	498
Sales tax receivable	98	687
Total current assets	4,064	6,515
PROPERTY AND EQUIPMENT, at cost, net of accumulated depreciation of \$3,471 and \$3,227, respectively	1,479	2,066
INVESTMENTS, at cost	359	359
SECURITY DEPOSITS	846	901
EXCESS OF PURCHASE PRICE OVER NET ASSETS ACQUIRED	11,200	11,200
Total assets	\$ 17,948	\$ 21,041
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 1,955	\$ 1,193
Accrued expenses	387	1,053
Current portion of obligations under capital leases	19	107
Total current liabilities	2,361	2,353
CAPITAL LEASE	14	223
Total liabilities	\$ 2,375	\$ 2,576
<b>STOCKHOLDERS' EQUITY:</b>		
Common stock, \$0.001 par value, 40,000,000 shares authorized, 33,821,125 and 33,067,125 shares issued and outstanding, respectively	34	33
Additional paid-in capital	199,365	196,652
Cumulative foreign currency translation adjustment	130	278
Accumulated deficit	(183,956)	(178,498)
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>15,573</b>	<b>18,465</b>
Total liabilities and stockholders' equity	\$ 17,948	\$ 21,041

The accompanying notes are an integral part of these condensed statements.

**MEDICSIGHT, INC. AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(In \$ thousands, except per share amounts)

	<u>Three Months Ended June 30, 2005 (unaudited)</u>	<u>Three Months Ended June 30, 2004 (unaudited)</u>
REVENUES	\$ 131	\$ 136
EXPENSES:		
Selling, general and administrative charges	2,892	2,959
Research and development cost	<u>524</u>	<u>851</u>
	3,416	3,810
Operating loss	(3,285)	(3,674)
OTHER INCOME		
Interest and other income	<u>38</u>	<u>—</u>
Loss before minority interest and income tax benefit realized	(3,247)	(3,674)
Minority interest	<u>—</u>	<u>471</u>
Loss before income tax benefit realized	(3,247)	(3,203)
Income tax benefit realized	<u>883</u>	<u>—</u>
Net loss	<u>\$ (2,364)</u>	<u>\$ (3,203)</u>
PER SHARE DATA:		
Basic and diluted loss per share	<u>\$ (0.07)</u>	<u>\$ (0.10)</u>
Weighted average number of common shares outstanding	<u>33,626,070</u>	<u>31,388,185</u>

The accompanying notes are an integral part of these condensed statements.

**MEDICSIGHT, INC. AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(in \$ thousands, except per share amounts)

	<u>Six Months Ended June 30, 2005 (unaudited)</u>	<u>Six Months Ended June 30, 2004 (unaudited)</u>
REVENUES	\$ 282	\$ 288
EXPENSES:		
Selling, general and administrative charges	5,512	6,110
Research and development cost	<u>1,163</u>	<u>1,520</u>
	6,675	7,630
Operating loss	(6,393)	(7,342)
OTHER INCOME		
Interest and other income	<u>52</u>	<u>—</u>
Loss before minority interest and income tax benefit realized	(6,341)	(7,342)
Minority interest	<u>—</u>	<u>605</u>
Loss before income tax benefit realized	(6,341)	(6,737)
Income tax benefit realized	<u>883</u>	<u>—</u>
Net loss	<u>\$ (5,458)</u>	<u>\$ (6,737)</u>
PER SHARE DATA:		
Basic and diluted loss per share	<u>\$ (0.16)</u>	<u>\$ (0.23)</u>
Weighted average number of common shares outstanding	<u>33,465,092</u>	<u>28,762,025</u>

The accompanying notes are an integral part of these condensed statements.

**MEDICSIGHT, INC. AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW**

(In \$ thousands)

	<u>Six months Ended June 30, 2005 (unaudited)</u>	<u>Six months Ended June 30, 2004 (unaudited)</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (5,458)	\$ (6,737)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation	244	376
Minority interest in net loss of subsidiary	—	(605)
Loss on disposal of fixed assets	69	—
(Increase)/decrease in assets		
Accounts receivable	(1)	11
Prepaid expenses and other current assets	29	(67)
Sales tax receivable	474	(21)
Increase/(decrease) in liabilities		
Accounts payable	721	(352)
Accrued expenses	(691)	(349)
Net cash used in operating activities	<u>(4,613)</u>	<u>(7,744)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Sale of fixed assets	300	—
Purchase of fixed assets	(81)	(121)
Net cash used in investing activities	<u>219</u>	<u>(121)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Principal payments under capital lease obligations	(333)	(47)
Decrease of bank overdraft	—	(196)
Proceeds from sale of common stock	2,714	20,931
Decrease in short term debt – related party	—	(2,470)
Net cash provided by financing activities	<u>2,381</u>	<u>18,218</u>
Effects of exchange rates on cash and cash equivalent	88	36
<b>NET CHANGE IN CASH &amp; CASH EQUIVALENTS</b>	<u>(1,925)</u>	<u>10,389</u>
<b>CASH &amp; CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<u>5,276</u>	<u>845</u>
<b>CASH &amp; CASH EQUIVALENTS, END OF PERIOD</b>	<u>\$ 3,351</u>	<u>\$ 11,234</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH PAID</b>		
Interest	3	35
Income tax benefit realized	(883)	—

The accompanying notes are an integral part of these condensed statements.

## MEDICSIGHT, INC. AND SUBSIDIARIES

### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(1) *Formation and Business of the Company*

Medicsight, Inc. (formerly HTTP Technology, Inc.) and its subsidiaries are collectively referred to in this Report as the “Company”. Our business objective is to conceive, develop and commercialize the Medicsight™ system (our state-of-the-art digital disease detection software system comprising Colon CAD, Lung CAD and Heartscreen) through our majority-owned subsidiary, Medicsight PLC (“MS-PLC”).

We were originally incorporated as a Utah corporation in 1977. On December 19, 2000, we entered into an Agreement and Plan of Merger with our wholly owned subsidiary HTTP Technology, Inc., a Delaware corporation, and thereby effected a re-incorporation of the company from Utah to Delaware. All references in this Annual Report to “the Company”, “we” or “us” refer to Medicsight, Inc., the Delaware corporation and subsidiaries, if the event occurred on or after December 19, 2000 or to HTTP Technology, Inc., the Utah corporation and subsidiaries, if the event occurred prior to December 19, 2000.

(2) *Basis of Presentation and liquidity*

The accompanying unaudited consolidated financial statements of the Company have been prepared pursuant to the rules of the Securities and Exchange Commission (the “SEC”). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States have been condensed or omitted pursuant to such rules and regulations. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the Fiscal years ended December 31, 2004. In the opinion of management, the accompanying unaudited consolidated financial statements reflect all adjustments, which are of a normal recurring nature, necessary for a fair presentation of the results for the periods presented. All significant inter-company transactions have been eliminated in consolidation.

The results of operations presented for the six months ended June 30, 2005, are not necessarily indicative of the results to be expected for any other interim period or any future fiscal year.

These consolidated financial statements are presented on the basis that the Company will continue as a going concern. The going concern concept contemplates the realization of assets and satisfaction of liabilities in the normal course of business over a reasonable length of time. The Company has incurred significant operating losses since inception. As a result, the Company has generated negative cash flows from operations, and has an accumulated deficit at June 30, 2005 and there is uncertainty with respect to the availability and the utilization of its credit facility with Asia IT Capital Investments Limited (a related party) – see Note 3. The Company is operating in a developing industry based on new technology and its primary source of funds to date has been through the issuance of securities and borrowed funds. The Company is currently seeking additional funding and is actively developing the technology in order to bring it to market. While the Company is optimistic and believes appropriate actions are being taken, there can be no assurance, however, that management’s efforts will be successful or that the products the Company develops and markets will be accepted by consumers. The condensed consolidated financial statements do not include any adjustments that might result from the outcome of this going concern uncertainty.

(3) *Lines of Credit*

On December 15, 2000, the Company entered into an unsecured credit facility with Asia IT, which provides a \$20,000,000 line of credit. Such line of credit originally expired on December 31, 2001, but has been extended until December 31, 2006. Interest on advances under the credit facility accrues at 2% above US LIBOR. The Company can draw down on this credit facility for its financing requirements, upon approval by the Company's Board of Directors and subject to approval by Asia IT (such approval not to be unreasonably withheld). The Company is restricted from borrowing funds, directly or indirectly, other than through the credit facility with Asia IT, without the consent of Asia IT. The availability of the credit facility would be reduced upon the Company's sale of any of its investment assets. The amounts drawn and interest charged under this facility are repayable on demand or at the maturity of the facility.

On November 20, 2001, MS-PLC entered into a £10,000,000 (\$18,000,000) credit facility with Asia IT. Such facility matures on December 31, 2006 and is secured by a lien on all assets of MS-PLC. Interest on outstanding amounts accrues at 2% above GBP LIBOR. The loan is convertible into ordinary shares in MS-PLC on announcement of an Offer to Subscribe, Placing or other public offering of its ordinary shares, at the same price per share as the offering price.

At June 30, 2005, the Company had not drawn down any funds under the \$20,000,000 facility with Asia IT, and MS-PLC had not drawn down any funds under its £10,000,000 (\$18,000,000) facility with Asia IT.

(4) *Stockholders' Equity*

During the six months ended June 30, 2005 the Company issued approximately 754,000 shares of restricted stock raising \$2,714,000 (net of commissions paid to Asia IT, a related party) as part of a private placement.

(5) *Accounting for Stock Based Compensation*

On March 20, 2003, the Board of Directors of MS-PLC approved a stock option plan for its employees and reserved 4,000,000 shares of its common stock for issuance upon exercise of options granted under this plan. On April 19, 2003, the Remuneration Committee of MS-PLC also approved the stock option plan and implemented it on April 30, 2003 by issuing options over 2,828,600 shares to employees of MS-PLC. At June 30, 2005, 100% of the options issued were exercisable under the plan.

The Company has elected to adopt the disclosure only provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" as amended by SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of FASB Statement No. 123", and measures the cost for MS-PLC's employee stock compensation plan by using the accounting methods prescribed by APB Opinion No. 25, "Accounting for Stock Issued to Employees", which allows that no compensation cost be recognized unless the exercise price of the options granted is lower than the fair market value of the Company's stock at date of grant. Accordingly, no stock-based employee compensation cost is reflected in net loss, as all options granted had an exercise price equal to the market value of the underlying common stock on the date of grant. SFAS No. 123, as amended by SFAS No. 148, requires disclosure of pro forma income and pro forma income per share as if the fair value based method had been applied in measuring compensation expense.

	Six months Ended June 30, 2005 (unaudited) \$'000	Six months Ended June 30, 2004 (unaudited) \$'000	Three months Ended June 30, 2005 (unaudited) \$'000	Three months Ended June 30, 2004 (unaudited) \$'000
Net loss as reported:	(5,458)	(6,737)	(2,364)	(3,203)
Fair value method of stock based compensation	(270)	(44)	(250)	(22)
Proforma net loss	(5,728)	(6,781)	(2,614)	(3,225)
Reported earnings per common share				
Basic and diluted	(0.16)	(0.23)	(0.07)	(0.10)
Proforma earnings per common share				
Basic and diluted	(0.17)	(0.23)	(0.08)	(0.10)

The fair values of options granted were determined under the intrinsic value method for expense determined under the fair value based method, net of related tax effects.

(6) *Goodwill and Other Intangible Assets*

The Company adopted SFAS No. 142 effective January 1, 2002. Under this standard, goodwill will no longer be amortized over its estimated useful life, but will be tested for impairment on an annual basis and whenever indicators of impairment arise.

Prior to January 1, 2002, goodwill was amortized on a straight-line basis over 5 years.

(7) *Security Deposits*

As MS-PLC occupies approximately 95% of 46 Berkeley Square it acquired the security deposit on the offices for cash from International Cellulose Company Ltd in February 2003. The value of the security deposit is £470,000 (\$846,000) and is interest-bearing.

(8) *Lease Commitments*

The Company has entered into property leases for the Westminster and Ravenscourt centers. The reduction in the operating lease obligations is as a result of the agreement to surrender the unused section of the leased area of Lifesyne's premises at Westminster has resulted in a significantly reduced cost. Future minimum obligations under these lease arrangements are as follows:

<u>For the 12 months ending June 30,</u>	<u>Property Leases (\$'000)</u>
2006	294
2007	203
2008	203

The Company's corporate offices at 46 Berkeley Square are leased to International Cellulose Company Limited (ICCL), a company registered in England and Wales. STG Holdings PLC, a significant stockholder of the Company, acquired 100% of the issued share capital of ICCL in November 2001. There is no formal lease agreement between ICCL and the Company for its offices at 46 Berkeley Square but the Company is charged by ICCL on the basis of space occupied. The approximate charge is \$140,000 per quarter.

(9) *Income Tax Benefit Realized*

The receipt of \$883,000 relates to a tax credit paid by the United Kingdom taxation authorities under its R&D tax relief scheme for small and medium enterprises to MS-PLC. The tax credit can either be set-off against taxable profits or, if not available, can be paid. If it is paid then this is set-off against the net operating loss carry forwards. The basis for the R&D relief is to encourage the development of new technologies and is only applicable to the research and development of a new technology and not a product.

The receipt represents the tax credit received for expenditures incurred between November 2001 and December 2003. The Company has not accrued for any potential tax credit for Fiscal 2004 as it has yet to accurately determine the completion date of the new technology (beyond estimating it occurred in the first half of 2004), or the value of any tax credit or make the application to the United Kingdom tax authorities under the relevant legislation. The Company believes it is prudent to recognize this benefit when notified by the taxing authority due to the uncertainty of the timing or amount of any relief. No application will be made for Fiscal 2005.

(10) *Comprehensive Income*

As of June 30, 2005 and the six months and quarter then ended, comprehensive income is comprised of a net loss from operations and the net effect of foreign currency translation adjustments. This comprised a net loss of \$5,458,000 and \$2,364,000 and foreign currency translation adjustments of \$148,000 and (\$156,000), resulting in comprehensive loss of \$5,606,000 and \$2,208,000, respectively.

(11) *Recent Accounting Pronouncements*

In May 2005, the Financial Accounting Standards Board ("FASB") issued Statement 154, "*Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20 and FASB Statement No. 3.*" The standard requires retrospective application to prior periods' financial statements of a voluntary change in accounting principle unless it is deemed impracticable. The standard states that a change in method of depreciation, amortization or depletion for long-lived, non-financial assets be accounted for as a change in accounting estimate that is affected by a change in accounting principle. The standard is effective for accounting changes and corrections of errors made occurring in fiscal years beginning after December 15, 2005. The adoption of Statement of Financial Accounting Standards ("SFAS") No. 154 is not expected to have a material impact on the Company's financial position or results of operations.

In December 2004, the FASB issued Statement 153, "*Exchanges of Non-monetary Assets, an amendment of APB Opinion No.29.*" The standard is based on the principle that exchanges of non-monetary assets should be measured based on the fair value of the assets exchanged and eliminates the exception under APB Opinion No. 29 for an exchange of similar productive assets and replaces it with an exception for exchanges of non-monetary assets that do not have commercial substance. The standard is effective for non-monetary exchanges occurring in fiscal periods beginning after June 15, 2005. The adoption of SFAS

No. 153 is not expected to have a material impact on the Company's financial position or results of operations.

In December 2004, the FASB issued Statement 123 (revised 2004), "*Share-Based Payment*." The standard eliminates the disclosure-only election under the prior SFAS 123 and requires the recognition of compensation expense for stock options and other forms of equity compensation based on the fair value of the instruments on the date of grant. The standard is effective for fiscal years beginning after June 15, 2005.

In November 2004, the FASB issued Statement 151, "*Inventory Costs*." The standard clarifies that abnormal amounts of idle facility expense, freight, handling costs, and wasted materials should be recognized as current-period charges and requires the allocation of fixed production overheads to inventory based on the normal capacity of the production facilities. The standard is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The adoption of SFAS No. 151 is not expected to have a material impact on the Company's financial position or results of operations.

## SIGNATURE

In accordance with 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.

MEDICSIGHT, INC.

By: /s/ TIM PATERSON-BROWN  
Tim Paterson-Brown  
Chief Executive Officer

By: /s/ PAUL A. GOTHARD  
Paul A. Gothard  
Chief Financial Officer

August 11, 2005

F-11

**Exhibit 31.1**

## CERTIFICATION

I, Tim Paterson-Brown, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Medicsight, Inc;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's

By: /s/ TIM PATERSON-BROWN

Tim Paterson-Brown  
Chief Executive Officer

August 11, 2005

E-1

**Exhibit 31.2**

CERTIFICATION

I, Paul Gothard, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Medicsight, Inc;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ PAUL A. GOTHARD

Paul A. Gothard  
Chief Financial Officer

August 11, 2005

E-2

**Exhibit 32.1**

OF THE SARBANES-OXLEY ACT OF 2002

I, Tim Paterson-Brown, Chief Executive Officer of Medicsight, Inc. (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that to the best of my knowledge:

- (1) the Quarterly Report on Form 10-Q of the Company for the quarterly period ended June 30, 2005 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ TIM PATERSON-BROWN  
Tim Paterson-Brown  
Chief Executive Officer

August 11, 2005

E-3

**Exhibit 32.2**

CERTIFICATION PURSUANT TO SECTION 906

OF THE SARBANES-OXLEY ACT OF 2002

I, Paul Gothard, Chief Financial Officer of Medicsight, Inc. (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that to the best of my knowledge:

- (1) the Quarterly Report on Form 10-Q of the Company for the quarterly period ended June 30, 2005 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ PAUL A. GOTHARD  
Paul A. Gothard  
Chief Financial Officer

August 11, 2005

E-4

**End of Filing**

Powered By **EDGAR**  
Online

© 2005 | **EDGAR Online, Inc.**