

ROCKWELL MEDICAL TECHNOLOGIES INC

Form 10-Q

August 13, 2007

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**United States  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
Form 10-Q**

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the quarterly period ended June 30, 2007**

or

**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 000-23661  
ROCKWELL MEDICAL TECHNOLOGIES, INC.  
(Exact name of registrant as specified in its charter)**

MICHIGAN

38-3317208

(State or other jurisdiction of  
incorporation or organization)

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

30142 Wixom Road, Wixom, Michigan

48393

(Address of principal executive offices)

(Zip Code)

(248) 960-9009

(Registrant's telephone number, including area code)  
(Former name, former address and former fiscal year,  
if changed since last report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes     No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer     Accelerated filer     Non-accelerated filer

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

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.

Class  
Common Stock, no par value

Outstanding as of July 31, 2007  
11,614,149 shares

**Rockwell Medical Technologies, Inc.**  
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**ROCKWELL MEDICAL TECHNOLOGIES, INC. AND SUBSIDIARY**  
**CONSOLIDATED BALANCE SHEETS**  
**As of June 30, 2007 and December 31, 2006**

	<b>JUNE 30, 2007 (Unaudited)</b>	<b>DECEMBER 31, 2006</b>
<b>ASSETS</b>		
Cash and Cash Equivalents	\$	\$ 2,662,873
Accounts Receivable, net of a reserve of \$109,166 in 2007 and \$72,500 in 2006	4,683,916	3,474,402
Inventory	2,821,186	2,660,098
Other Current Assets	294,033	261,473
Total Current Assets	7,799,135	9,058,846
Property and Equipment, net	2,923,585	2,587,771
Intangible Assets	434,395	457,846
Goodwill	920,745	920,745
Other Non-current Assets	125,667	127,625
Total Assets	\$ 12,203,527	\$ 13,152,833
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Short Term Borrowings	\$ 1,300,000	\$
Notes Payable & Capitalized Lease Obligations	248,081	369,551
Accounts Payable	3,256,217	2,920,258
Accrued Liabilities	802,183	1,114,592
Customer Deposits	14,647	48,274
Total Current Liabilities	5,621,128	4,452,675
Long Term Notes Payable & Capitalized Lease Obligations	271,840	326,045
Shareholders Equity:		
Common Shares, no par value, 11,524,149 and 11,500,349 shares issued and outstanding	23,207,294	23,147,709
Accumulated Deficit	(16,896,735)	(14,773,596)
Total Shareholders Equity	6,310,559	8,374,113
Total Liabilities And Shareholders Equity	\$ 12,203,527	\$ 13,152,833

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

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**Rockwell Medical Technologies, Inc. and Subsidiary**  
**Consolidated Income Statements**  
**For the three and six months ended June 30, 2007 and June 30, 2006**  
**(Whole dollars)**  
(Unaudited)

	<b>Three Months Ended June 30, 2007</b>	<b>Three Months Ended June 30, 2006</b>	<b>Six Months Ended June 30, 2007</b>	<b>Six Months Ended June 30, 2006</b>
<b>Sales</b>	<b>\$ 10,548,243</b>	<b>\$ 5,869,253</b>	<b>\$ 20,022,625</b>	<b>\$ 12,031,156</b>
Cost of Sales	9,431,207	5,404,107	18,988,308	10,782,701
<b>Gross Profit</b>	<b>1,117,036</b>	<b>465,146</b>	<b>1,034,317</b>	<b>1,248,455</b>
Selling, General and Administrative	797,787	693,935	1,523,446	1,319,777
Research and Product Development	761,539	1,311,085	1,584,059	1,759,822
<b>Operating (Loss)</b>	<b>(442,290)</b>	<b>(1,539,874)</b>	<b>(2,073,188)</b>	<b>(1,831,144)</b>
Interest Expense (Income), net	34,335	(30,817)	49,951	(32,869)
<b>Net (Loss)</b>	<b>\$ (476,625)</b>	<b>\$ (1,509,057)</b>	<b>\$ (2,123,139)</b>	<b>\$ (1,798,275)</b>
<b>Basic Earnings (Loss) per Share</b>	<b>\$ (.04)</b>	<b>\$ (.13)</b>	<b>\$ (.18)</b>	<b>\$ (.16)</b>
<b>Diluted Earnings (Loss) per Share</b>	<b>\$ (.04)</b>	<b>\$ (.13)</b>	<b>\$ (.18)</b>	<b>\$ (.16)</b>

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

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**Rockwell Medical Technologies, Inc. and Subsidiary**  
**Consolidated Statements of Cash Flows**  
**For the six months ended June 30, 2007 and June 30, 2006**  
(Unaudited)

	2007	2006
<b>Cash Flows From Operating Activities:</b>		
<b>Net (Loss)</b>	<b>\$ (2,123,139)</b>	<b>\$ (1,798,275)</b>
Adjustments To Reconcile Net (Loss) To Net Cash Used For Operating Activities:		
Depreciation and Amortization	393,186	366,327
Loss on Disposal of Equipment		653
Changes in Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	(1,209,514)	359,382
Decrease (Increase) in Inventory	(161,088)	(493,077)
(Increase) in Other Assets	(30,602)	(276,473)
Increase (Decrease) in Accounts Payable	335,959	(229,116)
Increase (Decrease) in Customer Deposits	(33,627)	47,358
Increase (Decrease) in Accrued Liabilities	(312,409)	29,965
Changes in Assets and Liabilities	(1,411,281)	(561,961)
<b>Cash (Used In) Operating Activities</b>	<b>(3,141,234)</b>	<b>(1,993,256)</b>
<b>Cash Flows from Investing Activities:</b>		
Purchase of Equipment	(674,292)	(292,106)
Purchase of Intangible Assets		(75,208)
<b>Cash (Used In) Investing Activities</b>	<b>(674,292)</b>	<b>(367,314)</b>
<b>Cash Flows From Financing Activities:</b>		
Proceeds from Borrowing on Line of Credit	1,300,000	
Payments on Line of Credit		(1,800,000)
Payments on Notes Payable and Capital Lease Obligations	(206,932)	(314,142)
Issuance of Common Shares	59,585	8,924,108
<b>Cash Provided By Financing Activities</b>	<b>1,152,653</b>	<b>6,809,966</b>
<b>Increase (Decrease) In Cash</b>	<b>(2,662,873)</b>	<b>4,449,396</b>
<b>Cash At Beginning Of Period</b>	<b>2,662,873</b>	<b>299,031</b>
<b>Cash At End Of Period</b>	<b>\$ -0-</b>	<b>\$ 4,748,427</b>
Supplemental Cash Flow Disclosure:		
Interest Paid	\$ 55,935	\$ 76,752

Non-Cash Investing and Financing Activity	Equipment Acquired Under Capital			
Lease Obligations		\$	31,257	\$

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

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**Rockwell Medical Technologies, Inc. and Subsidiary  
Notes to Consolidated Financial Statements**

**1. Description of Business**

We manufacture, sell and distribute hemodialysis concentrates and other ancillary medical products and supplies used in the treatment of patients with End Stage Renal Disease, or ESRD. We supply our products to medical service providers who treat patients with kidney disease. Our products are used to cleanse patients' blood and replace nutrients lost during the kidney dialysis process. We primarily sell our products in the United States.

We are regulated by the Federal Food and Drug Administration, FDA, under the Federal Drug and Cosmetics Act, as well as by other federal, state and local agencies. We have received 510(k) approval from the FDA to market hemodialysis solutions and powders. We also have 510(k) approval to sell our Dri-Sate Dry Acid Concentrate product line and our Dri-Sate Mixer.

**2. Summary of Significant Accounting Policies**

**Basis of Presentation**

Our consolidated financial statements include our accounts and the accounts of our wholly-owned subsidiary, Rockwell Transportation, Inc. All intercompany balances and transactions have been eliminated. The accompanying consolidated financial statements have been prepared using accounting principles generally accepted in the United States of America, or GAAP, and with the instructions to Form 10-Q and Rule 10-01 of Securities and Exchange Commission Regulation S-X as they apply to interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. The balance sheet at December 31, 2006 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by GAAP for complete financial statements.

In the opinion of our management, all adjustments have been included which are necessary to make the financial statements not misleading. All of these adjustments that are material are of a normal and recurring nature. Our operating results for the three and six month periods ended June 30, 2007 are not necessarily indicative of the results to be expected for the year ending December 31, 2007. You should read our unaudited interim financial statements together with the financial statements and related footnotes for the year ended December 31, 2006 included in our Annual Report on Form 10-KSB for the fiscal year ended December 31, 2006. Our Annual Report on Form 10-KSB for the fiscal year ended December 31, 2006 includes a description of our significant accounting policies.

**Revenue Recognition**

We recognize revenue at the time we transfer title to our products to our customers consistent with generally accepted accounting principles. Generally, we recognize revenue when our products are delivered to our customer's location consistent with our terms of sale. We recognize revenue for international shipments when title has transferred consistent with standard terms of sale.

We require certain customers, mostly international customers, to pay for our products prior to the transfer of title to the customer. Deposits received from customers and payments in advance for orders are recorded as liabilities under Customer Deposits until such time as orders are filled and title transfers to the customer consistent with our terms of sale. At June 30, 2007 and December 31, 2006 we had customer deposits of \$14,647 and \$48,274, respectively.

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For the quarter ended March 31, 2006, we reached a settlement with a customer related to its breach of several purchase contracts. Under the terms of the settlement, we were paid \$755,000 in exchange for release of the customer's future obligations under these contracts. All of this settlement was recognized as a component of revenue in 2006.

**Research and Product Development**

We recognize research and product development costs as expenses are incurred. We incurred product development and research costs related to the commercial development, patent approval and regulatory approval of new products, including iron supplemented dialysate, aggregating approximately \$1,584,059 and \$1,759,822 in the first six months of 2007 and 2006, respectively.

During 2006, we entered into a number of research and development related contracts for safety, pharmacology and toxicology testing of our iron dialysate drug product under which we made commitments to spend \$3.4 million. Services under the contracts were to be performed over periods ranging from 3 to 15 months. We are recognizing the cost of these contracts as research and development expense over the periods in which the testing is being performed and on a basis reflective of the level of activity under those contracts in each period. During 2006, we expensed approximately \$2.9 million under these contracts. In the first half of 2007, we expensed \$512,000 under these contracts.

**Earnings Per Share**

We computed our basic earnings per share using weighted average shares outstanding for each respective period. Diluted earnings per share also reflect the weighted average impact from the date of issuance of all potentially dilutive securities, consisting of stock options and common share purchase warrants, unless inclusion would have had an anti-dilutive effect. Actual weighted average shares outstanding used in calculating basic and diluted earnings per share were:

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Basic Weighted Average Shares Outstanding	11,515,428	11,309,641	11,508,103	10,901,811
Effect of Dilutive Securities				
Diluted Weighted Average Shares Outstanding	11,515,428	11,309,641	11,508,103	10,901,811

**3. Inventories**

Components of inventory as of June 30, 2007 and December 31, 2006 are as follows:

	June 30, 2007	December 31, 2006
Raw Materials	\$ 788,590	\$ 717,876
Finished Goods	2,032,596	1,942,222
Total Inventory	\$ 2,821,186	\$ 2,660,098

**4. Line of Credit**

On March 23, 2007, we renewed our line of credit with a financial institution. The loan agreement provides for revolving borrowings by us of up to \$2,750,000. We are permitted to borrow up to 80% of our eligible accounts receivable and up to 40% of our eligible inventory up to \$600,000. Borrowings under the loan agreement are secured by accounts receivable, inventory and certain other assets. The annual interest rate payable on revolving borrowings under the loan agreement is the lender's prime rate plus 75 basis points. The

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lender's commitment to make revolving borrowings under the loan agreement expires on April 1, 2008. As of June 30, 2007, we had outstanding borrowings of \$1,300,000 under this line of credit.

**5. Long-Term Incentive Plan**

On May 24, 2007, the shareholders approved the adoption of a long term incentive plan (LTIP). The Company has reserved an aggregate of 1,000,000 Common Shares that can be awarded under the LTIP. The Compensation Committee may grant stock options, restricted stock, restricted stock units and performance based cash or stock based awards under the LTIP. No equity grants had been issued under the plan as of June 30, 2007.

The Company's 1997 Stock Option Plan terminated as to future grants on May 24, 2007. Immediately prior to termination of future grants, 489,856 shares were available for grant. No stock options were granted under the 1997 Stock Option Plan during 2007.

**6. Recent Accounting Pronouncements**

In June 2006, the Financial Accounting Standards Board issued Financial Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48). FIN 48, which is an interpretation of Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes, provides guidance on the manner in which tax positions taken or to be taken on tax returns should be reflected in an entity's financial statements prior to their resolution with taxing authorities. The adoption of the provisions of this pronouncement did not have a material impact on our financial position or results of operations.

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

**Forward Looking Statements**

The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements and the Notes thereto included elsewhere in this report. The discussion that follows contains certain forward-looking statements relating to our anticipated future financial condition, operating results, cash flows and our current business plans. When we use words such as may, might, will, should, believe, expect, anticipate, estimate, forecast, projected, intend or similar expressions, or make statements regarding our intent, belief, or current expectations, we are making forward-looking statements.

These forward-looking statements represent our outlook only as of the date of this report. We claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 for all of our forward-looking statements. While we believe that our forward-looking statements are reasonable, you should not place undue reliance on any such forward-looking statements, which are based on information available to us on the date of this report. Because these forward-looking statements are based on estimates and assumptions that are subject to significant business, economic and competitive uncertainties, many of which are beyond our control or are subject to change, actual results could be materially different. Factors that might cause such a difference include, without limitation, the risks and uncertainties discussed in this report and from time to time in our other reports filed with the Securities and Exchange Commission, including under Item 1 Description of Business Risk Factors and Forward Looking Statements in our Form 10-KSB for the year ended December 31, 2006 and the following:

The dialysis provider market is highly concentrated in national and regional dialysis chains that account for the majority of our domestic revenue.

We operate in a very competitive market against substantially larger competitors with greater resources.

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Orders from our international distributors may not result in recurring revenue.

Our new drug product requires FDA approval and expensive clinical trials before it can be marketed.

Even if our new drug product is approved by the FDA it may not be successfully marketed, and may not be eligible for Medicare reimbursement.

We depend on government funding of healthcare.

We may not have sufficient cash to operate the business.

The market price of our securities may be volatile.

We may not be successful in improving our gross profit margins and our business may remain unprofitable.

Our suppliers may increase their prices faster than we are able to raise our prices to offset such increases. We may have limited ability to gain a raw material pricing advantage by changing vendors for certain raw materials.

We depend on key personnel.

Our business is highly regulated.

Foreign approvals to market our new drug products may be difficult to obtain.

Health care reform could adversely affect our business.

We may not have sufficient products liability insurance.

**Overview and Recent Developments**

We operate in a single business segment the manufacture and distribution of hemodialysis concentrates, dialysis kits and ancillary products used in the kidney dialysis process. We have gained domestic market share each year since our inception in 1996. Our aggregate sales in the first half of 2007 increased 66% compared to the six months ended June 30, 2006. Our strategy is to continue to develop and expand our dialysis products business while at the same time developing new products including pharmaceutical products for this market.

Our strategy is also to expand the geographic footprint of our business in North America. We realized a unique business opportunity to do so in the last quarter of 2006 and the first quarter of 2007 due to the exit of one of our competitors, Gambro, from the market. Concurrent with Gambro's withdrawal from the concentrate business, we began to service many of the chain and independent clinics serviced by Gambro, including many clinics owned by DaVita, Inc., the second largest U.S. dialysis provider. During the first half of 2007, the number of clinics we service increased by over 50%.

We intend to continue to increase the size of our customer portfolio in order to expand our production and distribution operations into regions where we previously had business but no production facility. We believe this strategic initiative will ultimately lead to efficiencies and economies of scale, and will position the Company for an adequate and sustainable return on investment. We anticipate that we will continue to gain domestic market share in 2007.

As a result of the dramatic increase in sales volume and the increased geographic diversity of the clinics we serve, we took actions during the first quarter of 2007 to ensure adequacy of product supply and uninterrupted order fulfillment for the new business we added. Our main initiative in this regard was to relocate one of our production facilities in a region where the additional business we acquired had outstripped our ability to properly



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supply, distribute and service the business. As a result of this relocation, we incurred costs aggregating approximately \$500,000 for physical relocation, extra labor, plant start-up expenses, distribution start-up expenses, inventory write-offs and dual facility operating costs during the start-up period. Although these costs are not expected to recur at this location, we expect to incur similar types of costs in other regions as we continue to adjust our production and distribution facilities to meet new or changing demand.

We are in the process of raising our average selling prices in 2007 in part to offset these additional costs and the higher costs of raw materials and fuel. In the second quarter of 2007, we implemented price increases with an overall weighted average annual impact on gross profit margins of approximately 6%. Price increases on other maturing contracts are expected to be renewed at higher-than-current rates throughout the remainder of 2007. If we are successful in implementing these increases, our gross profit margins may improve later in the year to levels at or above those experienced in 2006 and our gross profit should exceed our selling, general and administrative expense in those quarters. However, we could experience changes in our customer and product mix in future quarters that could negatively impact gross profit. Since we sell a wide range of products with varying profit margins and to customers with varying order patterns, we expect our gross profit and our gross profit margins to continue to vary period to period. As we add business in certain markets and regions in order to increase the scale of our business operations, we may incur additional costs that are greater than the additional revenue generated from these initiatives until we have achieved a scale of operations that are profitable.

Increased operating costs that are subject to inflation, such as fuel and material costs, may not be recoverable through price increases to our customers if our competitors do not also raise prices. If we are not able to recover cost increases, it could materially adversely affect our business, financial condition and results of operations. We generally enter into short and medium term contracts of one to two years for our major raw materials and we generally enter into customer contracts of similar duration to mitigate our exposure to raw material and other cost increases.

The dialysis supply market is very competitive and is characterized by having a few dialysis providers treating the majority of patients in the United States. We compete against companies which have substantially greater resources than we have. Our revenue is highly concentrated in a few customers and the loss of any of those customers would adversely affect our results. However, we expect to continue to grow our business while executing our strategic plan to expand our product lines, to expand our geographic reach and to develop our proprietary technology, which may include adding facilities and personnel to support our growth.

While the majority of our business is with domestic clinics who order routinely, certain major distributors of our products internationally have not ordered consistently, resulting in variation in our international sales from period to period. We anticipate that we will realize substantial orders from time to time from our largest international distributors but we expect the size and frequency of these orders to fluctuate from period to period. These orders may increase in future quarters or may not recur at all.

We are seeking to gain FDA approval for our iron supplemented dialysate product. We believe our iron supplemented dialysate product, which has a unique method of action and other substantive benefits compared to current treatment options, has the potential to compete in the iron maintenance therapy market. The cost to obtain regulatory approval for a drug in the United States is expensive and can take several years. We expect to devote substantial resources to this drug approval effort until it is completed.

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**Results of Operations for the Three and Six Months Ended June 30, 2007 and June 30, 2006**

**Sales**

Our sales in the second quarter of 2007 increased \$4,678,990 or 79.7% to \$10,548,243 compared to the second quarter of 2006. Our substantial revenue growth over the second quarter of 2006 was almost entirely due to domestic sales growth. Growth in our domestic business over the last year has been mainly due to the exit of Gambro from our market and the contraction of another competitor. Concurrent with Gambro's exit from the concentrate market, we began to service a significant portion of the DaVita clinics formerly serviced by Gambro and have gained a substantial amount of new business from other dialysis providers over the last year.

In comparison to the second quarter of 2007, our domestic sales grew by 80% or \$4.5 million as a result of the additional volume from servicing these additional clinics. Sales to DaVita clinics represented approximately 70% of the total increase in domestic sales while growth in sales to other national chains, regional chains and other independent clinics increased by over 42% and represented slightly over 30% of the growth in domestic business.

As a result of the foregoing factors, we have achieved increases in domestic market share over the last year. We are working to continue these increases and expect to realize continued domestic sales growth throughout 2007, primarily as a result of the same factors.

International sales increased \$200,000 or 56% in the second quarter of 2007 compared to the second quarter of 2006 and represented 5.2% of sales in the second quarter of 2007.

Sales of our dialysis concentrate product lines, which represented 94% of our sales in the second quarter of 2007, increased approximately 80% in the second quarter of 2007 compared to the second quarter of 2006. The primary increase in sales was in our liquid and powder acid concentrate products, sales of which increased in excess of 100% predominantly due to a 133% increase in liquid acid gallons sold.

Our sales in the first six months of 2007 were \$20,022,625 and increased \$7,991,469 or 66.4% over sales in the first six months of 2006. The increase in our sales in 2007 was largely due to the market share gains and domestic sales growth resulting from the exit of Gambro and the contraction of another competitor. Domestic sales increased by 80% over the first six months of 2006. Unit volume increases in our business accounted for approximately 92% of the sales increase in the first six months of 2006. The increase in first half 2007 sales was partially offset by a breach of contract settlement that increased sales by \$755,000 in the first quarter of 2006. Our international sales were approximately 5% of total sales in the first half of 2007 and 6% of total sales in the first half of 2006.

**Gross Profit**

Gross profit in the second quarter of 2007 was \$1,117,036 or 10.6% of sales which represented an increase of \$651,890 over the second quarter of 2006. Gross profit margins increased to 10.6% from 7.9% in the second quarter of 2006. The improvement was due to increasing volumes across all of our concentrate product lines resulting in increased volume in our facilities along with higher prices. The margin improvement was partially offset by higher raw material costs.

Gross profit in the first six months of 2007 was \$1,034,317 or 5.2% of sales compared to \$1,248,455 or 10.4% of sales in the first six months of 2006. The decrease was due to additional costs incurred in the first quarter of 2007 to ensure adequacy of product supply and uninterrupted order fulfillment for the new clinics we are serving. These costs included the physical relocation of one of our facilities and start-up expenses while we operated two facilities serving the same region. Certain of the new business we added was in geographic areas that were distant from our facilities. In order to improve the margins on our new business we have and continue to expect to raise prices and to better position our supply chain to service this business. We anticipate that gross margins may fluctuate in future periods depending upon the timing of price increases compared to material cost increases and the cost of additional facility relocation or expansion.

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Gross profit in the first half of 2006 included a \$755,000 breach of contract settlement recognized as revenue in the first quarter of 2006.

### **Selling, General and Administrative Expense**

Selling, general and administrative expense, or SG&A, for the second quarter of 2007 increased by \$103,582 or 15% compared to the second quarter of 2006. We incurred higher costs for personnel, administration, information technology and other costs of operation in support of our 79.7% increase in sales. SG&A costs decreased as a percent of sales to 7.6% from 11.8% in the second quarter last year due to increased sales.

Similarly, in the first six months of 2007, SG&A costs increased 15.4% or \$203,669 but decreased as a percent of sales to 7.6% of sales from 11.0% of sales for the first six months of 2006. Most of our expense increase was due to increased costs to support our growth, including additional personnel and investments in additional information technology. In addition, we incurred increased marketing expenditures, sales commissions and other operating costs associated with our new business.

### **Research and Development Expense**

Research and product development expense was \$761,539 or 7.2% of sales in the second quarter of 2007 compared to \$1,311,085 or 22.3% of sales in the second quarter of 2006. R&D spending was entirely related to spending for product development and regulatory approval of Soluble Ferric Pyrophosphate, or SFP, our proprietary dialysate iron product used in the treatment of anemia.

In the first six months of 2007, research and product development expense was \$1,584,059 or 7.9% of sales compared to \$1,759,822 or 14.6% of sales in the first six months of 2006. Costs incurred in 2006 were primarily for non-clinical testing of SFP. Expenditures in 2007 included expenditures for non-clinical testing and costs related to preparation for human clinical testing which is scheduled for the third quarter of 2007 following FDA review of our non-clinical studies.

We currently anticipate SFP related expenses to be in the \$2.5 to \$3.0 million range for the remainder of 2007. The actual amount may vary, however, and will depend in large part on the timing of our clinical trial and other related product testing projects.

### **Interest Expense, Net**

Net interest expense was \$34,335 and \$49,951 in the second quarter and first six months of 2007, respectively, compared to net interest income of \$30,817 and \$32,689 in the same periods of 2006 due to increased borrowing under our line of credit.

The interest income in 2006 was the result of the investment of the net proceeds of the stock offering that occurred in the first quarter of 2006.

### **Liquidity and Capital Resources**

We have two major areas of strategic focus in our business. First, we plan to develop our dialysis concentrate solutions and ancillary supply business. Second, we expect to expend substantial amounts in support of our clinical development plan and regulatory approval for SFP. Both of these initiatives require investments of substantial amounts of capital.



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During the first half of 2007, we used approximately \$4.0 million in cash to fund operating and investing activities and repayment of long term debt. We used our available cash and borrowed \$1.3 million on our line of credit to fund these various activities. Our accounts receivable increased by \$1.2 million but we do not anticipate our accounts receivable to increase in the third quarter. Similarly, we do not anticipate any significant increases in our net working capital. We reduced our long term debt and capital lease obligations by \$207,000 in the first half of 2007, which included \$122,000 related to the final payments on a note payable that is now fully repaid.

We also incurred certain large cash expenditures to support our 66% sales growth in the first half of 2007. We used approximately \$500,000 in cash in the first quarter of 2007 to fund the relocation and start-up of a new facility. We also incurred approximately \$500,000 in start-up costs for new business and increases in material costs in the first quarter of 2007. However, we have subsequently increased prices on about half of our business, thereby raising our overall margins and improving operating cash flow. Our dialysis products business showed substantial improvement in operating results compared to the first quarter with sales increasing 11.3% over the first quarter and gross profit margins increasing to 10.6%. In the second quarter, our cash requirements excluding our research and development costs were approximately equal to the cash generated from our operations. Going forward, if we continue to realize new business and price increases in excess of material cost increases as anticipated, we should generate increased cash flow from our core operations during the remainder of 2007, before research and development expenses.

We expect to continue to expand our production and distribution network in the year ahead, which will require additional capital. We anticipate that we will enter into an equipment leasing arrangement to fund the majority of capital expenditures associated with facility expansions or additions. If we require additional working capital to support facility additions, we believe our current working capital line will be sufficient to meet our short term working capital needs.

We expect that we will need to borrow additional funds and to raise additional capital in order to execute our strategic plan. The maximum amount of borrowing permitted under our working capital line is \$2.75 million. As of June 30, 2007, we had borrowed \$1,300,000 under our working capital line. The terms of our working capital line are discussed in Note 4 to the consolidated financial statements.

In the first six months of 2007, our research and development costs were \$1.6 million. Over the next year we anticipate spending approximately \$5 - \$6 million on SFP testing and approval. We expect to raise additional capital to fund these research and development expenditures.

Our longer term pharmaceutical product development initiatives and regulatory approval work will also require sources of funding in addition to cash flows from our operations. In our efforts to obtain additional capital resources, we will evaluate both debt and equity financing as potential sources of funds. We will also evaluate alternative sources of business development funding, international marketing partners, sub-licensing of certain products for certain markets as well as other potential funding sources. Should we not be able to obtain additional financing, we may be forced to alter our strategy, delay spending on development initiatives or take other actions to conserve cash resources.

### **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

#### **Interest Rate Risk**

Our exposure to interest rate risk is limited to borrowings under our line of credit. Our borrowings under our line of credit were \$1,300,000 as of June 30, 2007. A 100 basis point increase in the prime rate of our lending institution would increase annual interest expense by \$13,000, assuming our borrowing level remained constant for the year.

#### **Foreign Currency Exchange Rate Risk**

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Our international business is conducted in U.S. dollars. It has not been our practice to hedge the risk of appreciation of the U.S. dollar against the predominant currencies of our trading partners. We have no significant foreign currency exposure to foreign supplied materials, and an immediate 10% strengthening or weakening of the U.S. dollar would not have a material impact on our shareholders' equity or net income.

**Item 4. Controls and Procedures**

**Disclosure Controls and Procedures**

Management is responsible for establishing and maintaining effective disclosure controls and procedures, as defined under Rule 13a-15 of the Securities Exchange Act of 1934, as amended (the Exchange Act) that are designed to cause the material information required to be disclosed by us in the reports we file or submit under the Exchange Act to be recorded, processed, summarized, and reported to the extent applicable within the time periods required by the Securities and Exchange Commission's rules and forms, and for such information to be accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required financial disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that a control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, with a company have been detected.

As of the end of the period covered by this report, we performed an evaluation under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of its disclosure controls and procedures pursuant to Rule 13a-15 of the Exchange Act. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were effective, at the reasonable assurance level, as of the end of the period covered by this report.

**Changes in Internal Control over Financial Reporting**

No changes were made to our internal control over financial reporting (as defined in Rule 13a-15 under the Exchange Act) during the last fiscal quarter that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II OTHER INFORMATION**

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

At the Company's annual meeting of its shareholders held May 24, 2007, the shareholders re-elected Mr. Ronald D. Boyd to the board of directors as a Class I director for a three year term expiring in 2010. Votes cast in favor totaled 10,737,530 while 38,593 votes were withheld.

In addition, the shareholders approved the adoption of the Company's 2007 Long Term Incentive Plan under which we reserved an aggregate of 1,000,000 of our Common Shares that can be awarded under the plan. Votes cast in favor were 3,340,095 while votes against were 411,538. Abstentions totaled 63,886 and broker non-votes totaled 6,960,604.

**Item 6. Exhibits**

See Exhibit Index following signature page, which is incorporated herein by reference.

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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.

ROCKWELL MEDICAL TECHNOLOGIES, INC.  
(Registrant)

Date: August 13, 2007

/s/ ROBERT L. CHIOINI

Robert L. Chioini  
President, Chief Executive  
Officer and Director (principal  
executive officer) (duly authorized  
officer)

Date: August 13, 2007

/s/ THOMAS E. KLEMA

Thomas E. Klema  
Vice President of Finance, Chief  
Financial Officer, Treasurer and  
Secretary (principal financial  
officer and principal accounting officer)

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**10-Q EXHIBIT INDEX**

<b>Exhibit No.</b>	<b>Description</b>
10.18	2007 Long Term Incentive Plan incorporated by reference to the Proxy Statement for the Annual Meeting of Shareholders filed on April 18, 2007
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934
32.1	Certification pursuant to 18 U.S.C. Section 1350 and Rule 13a-14(b) of the Securities Exchange Act of 1934