

MedaSorb Technologies CORP  
Form 10-Q  
May 13, 2009

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 March 31, 2009

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: 000-51038

MedaSorb Technologies Corporation  
(Exact Name of Registrant as Specified in Its Charter)

Nevada  
(State or Other Jurisdiction of  
Incorporation Or Organization)

98-0373793  
(I.R.S. Employer Identification No.)

7 Deer Park Drive, Suite K, Monmouth Junction, New Jersey 08852  
(Address of Principal Executive Offices)

(732) 329-8885  
(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 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, a non-accelerated filer, or a smaller reporting company. See definition of "accelerated filer, large accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer   
Non-accelerated filer  (Do  
not check if a  
smaller reporting company)

Accelerated filer   
Smaller reporting  
company

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

As of May 14, 2009 there were 32,810,819 shares of the issuer's common stock outstanding.

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MedaSorb Technologies Corporation  
(a development stage company)  
FORM 10-Q

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## PART I — FINANCIAL INFORMATION

## Item 1. Financial Statements.

MEDASORB TECHNOLOGIES CORPORATION  
(a development stage company)

## CONSOLIDATED BALANCE SHEETS

|   | March 31,<br>2009<br>(Unaudited) | December<br>31,<br>2008 |
|---|----------------------------------|-------------------------|
| <b>ASSETS</b>   |                                  |                         |
| <b>Current Assets:</b>  |                                  |                         |
| Cash and cash equivalents   | \$ 2,154,795                     | \$ 2,749,208            |
| Short-term investments  | —                                | 199,607                 |
| Prepaid expenses and other current assets   | 89,230                           | 117,003                 |
| <b>Total current assets</b>   | <b>2,244,025</b>                 | <b>3,065,818</b>        |
| Property and equipment - net  | 48,679                           | 52,057                  |
| Other assets  | 264,980                          | 269,310                 |
| <b>Total long-term assets</b>   | <b>313,659</b>                   | <b>321,367</b>          |
| <b>Total Assets</b>   | <b>\$ 2,557,684</b>              | <b>\$ 3,387,185</b>     |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>   |                                  |                         |
| <b>Current Liabilities:</b>   |                                  |                         |
| Accounts payable  | \$ 767,926                       | \$ 885,465              |
| Accrued expenses and other current liabilities  | 75,141                           | 92,239                  |
| Notes payable   | 50,000                           |                         |
| <b>Total current liabilities</b>  | <b>893,067</b>                   | <b>977,704</b>          |
| Notes payable   | —                                | 50,000                  |
| <b>Total long term liabilities</b>  | <b>—</b>                         | <b>50,000</b>           |
| <b>Total liabilities</b>  | <b>893,067</b>                   | <b>1,027,704</b>        |
| <b>Stockholders' Equity (Deficit):</b>  |                                  |                         |
| 10% Series B Preferred Stock, Par Value \$0.001, 200,000 shares authorized at March 31, 2009 and December 31, 2008, respectively; 56,640.89 and 55,558.64 shares issued and outstanding, respectively | 56                               | 55                      |
| 10% Series A Preferred Stock, Par Value \$0.001, 12,000,000 shares authorized at March 31, 2009 and December 31, 2008, respectively; 8,563,100 and 8,793,060  | 8,563                            | 8,793                   |

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shares issued and outstanding, respectively

Common Stock, Par Value \$0.001, 500,000,000 and 500,000,000 Shares authorized at March 31, 2009 and December 31, 2008, 30,510,819 and 25,263,517 shares issued

|  |              |              |
|--|--------------|--------------|
| and outstanding, respectively                        | 30,511       | 25,264       |
| Additional paid-in capital                           | 78,017,693   | 77,786,850   |
| Deficit accumulated during the development stage     | (76,392,206) | (75,461,481) |
| Total stockholders' equity (deficit)                 | 1,664,617    | 2,359,481    |
| Total Liabilities and Stockholders' Equity (Deficit) | \$ 2,557,684 | \$ 3,387,185 |

See accompanying notes to consolidated financial statements.

MEDASORB TECHNOLOGIES CORPORATION  
(a development stage company)

CONSOLIDATED STATEMENTS OF  
OPERATIONS

|  | Period from<br>January 22, 1997<br>(date of inception)<br>to<br>March 31, 2009<br>(Unaudited) | Three months ended March<br>31,<br>2009<br>(Unaudited)      2008<br>(Unaudited) |              |
|--|---|---|--------------|
| Revenue  | \$ —  | \$ —  | \$ —         |
| Expenses:  |   |   |              |
| Research and development   | 44,780,318  | 488,555   | 355,127      |
| Legal, financial and other consulting                                  | 7,048,758   | 48,733  | 57,924       |
| General and administrative   | 22,537,781  | 228,334   | 233,524      |
| Change in fair value of management and incentive units                 | (6,055,483)   | —   | —            |
| Total expenses   | 68,311,374  | 765,622   | 646,575      |
| Other (income)/expense:  |   |   |              |
| Gain on disposal of property and equipment                             | (21,663)  | —   | —            |
| Gain on extinguishment of debt   | (216,617)   | —   | —            |
| Interest expense (income), net   | 5,593,782   | (5,471)   | (525)        |
| Penalties associated with non-registration of Series A Preferred Stock | 361,495   | —   | —            |
| Total other (income)/expense, net                                      | 5,716,997   | (5,471)   | (525)        |
| Loss before benefit from income taxes                                  | (74,028,371)  | (760,151)   | (646,050)    |
| Benefit from income taxes  | (248,529)   | —   | —            |
| Net loss   | (73,779,842)  | (760,151)   | (646,050)    |
| Preferred stock dividend   | 2,612,364   | 170,574   | 200,487      |
| Net loss available to common shareholders                              | \$ (76,392,206)   | \$ (930,725)  | \$ (846,537) |
| Basic and diluted net loss per common share                            |   | \$ (0.03)   | \$ (0.03)    |
| Weighted average number of shares of common stock outstanding          |   | 29,072,876  | 25,044,932   |

See accompanying notes to consolidated financial statements.

MEDASORB TECHNOLOGIES CORPORATION  
(a development stage company)

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS'  
EQUITY (DEFICIT)

Period from  
December 31, 2008 to  
March 31, 2009  
(Unaudited)

|   | Members<br>Equity | Deferred<br>Compensation | Common<br>Shares | Stock<br>Par<br>value | Preferred<br>Shares | Stock B<br>Par<br>Value | Preferred<br>Shares | Stock A<br>Par<br>Value | Additional<br>Paid-In<br>Capital | Deficit<br>Accumulated<br>During the<br>Development<br>Stage | Total<br>Stockholders'<br>Equity (Deficit) |
|---|-------------------|--------------------------|------------------|-----------------------|---------------------|-------------------------|---------------------|-------------------------|----------------------------------|--|--|
| Balance at<br>December 31,<br>2008  | \$ —              | \$ —                     | 25,263,517       | \$ 25,264             | 55,558.64           | \$ 55                   | 8,793,060           | \$ 8,793                | \$ 77,786,850                    | \$(75,461,481)   | \$ 2,359,481                               |
| Stock based<br>compensation –<br>employees,<br>consultants<br>and directors | —                 | —                        | —                | —                     | —                   | —                       | —                   | —                       | 65,287                           | —  | 65,287                                     |
| Issuance of<br>Series A<br>Preferred<br>Stock as<br>dividends               | —                 | —                        | —                | —                     | —                   | —                       | 211,706             | 211                     | 32,069                           | (32,280)   | —  |
| Issuance of<br>Series B<br>Preferred<br>Stock as<br>dividends               | —                 | —                        | —                | —                     | 1,382.94            | 1                       | —                   | —                       | 138,293                          | (138,294)  | —  |
| Conversion of<br>Series A and<br>Series B into<br>Common                    | —                 | —                        | 5,247,302        | 5,247                 | (300.69)            | —                       | (441,666)           | (441)                   | (4,806)                          | —  | —  |
| Net loss  | —                 | —                        | —                | —                     | —                   | —                       | —                   | —                       | —                                | (760,151)  | (760,151)                                  |
| Balance at<br>March 31,<br>2009   | —                 | —                        | 30,510,819       | 30,511                | 56,640.89           | 56                      | 8,563,100           | 8,563                   | 78,017,693                       | (76,392,206)   | 1,664,617                                  |





MEDASORB TECHNOLOGIES  
CORPORATION  
(a development stage company)

CONSOLIDATED STATEMENTS OF  
CASH FLOWS

|  | Period from<br>January<br>22,1997<br>(date of<br>inception) to<br>March 31, 2009<br>(Unaudited) | Three<br>months<br>ended<br>March 31,<br>2009<br>(Unaudited) | Three<br>months<br>Ended<br>March 31,<br>2008<br>(Unaudited) |
|--|---|--|--|
| <b>Cash flows from operating activities:</b>   |   |  |  |
| Net loss   | \$ (73,779,842)   | \$ (760,151)   | \$ (646,050)   |
| <b>Adjustments to reconcile net loss to net cash used in operating activities:</b>                 |   |  |  |
| Common stock issued as inducement to convert convertible notes payable and accrued interest        | 3,351,961   | —  | —  |
| Issuance of common stock to consultant for services  | 30,000  | —  | —  |
| Depreciation and amortization  | 2,353,380   | 12,614   | 25,925   |
| Amortization of debt discount  | 1,000,000   | —  | —  |
| Gain on disposal of property and equipment   | (21,663)  | —  | —  |
| Gain on extinguishment of debt   | (216,617)   | —  | —  |
| Interest expense paid with Series B Preferred Stock in connection with conversion of notes payable | 3,147   | —  | —  |
| Abandoned patents  | 183,556   | —  | —  |
| Bad debts - employee advances  | 255,882   | —  | —  |
| Contributed technology expense   | 4,550,000   | —  | —  |
| Consulting expense   | 237,836   | —  | —  |
| Management unit expense  | 1,334,285   | —  | —  |
| Expense for issuance of warrants   | 518,763   | —  | —  |
| Expense for issuance of options  | 1,318,782   | 65,287   | 118,704  |
| Amortization of deferred compensation  | 74,938  | —  | —  |
| Penalties in connection with non-registration event  | 361,496   | —  | —  |
| <b>Changes in operating assets and liabilities:</b>  |   |  |  |
| Prepaid expenses and other current assets  | (360,778)   | 27,773   | 12,769   |
| Other assets   | (61,630)  | 5,003  | (2,500)  |
| Accounts payable and accrued expenses  | 2,662,279   | (134,637)  | 231,345  |
| Accrued interest expense   | 1,823,103   | —  | —  |
| Dividend/penalty payable   | —   | —  | —  |
| <b>Net cash used by operating activities</b>   | <b>(54,381,122)</b>   | <b>(784,111)</b>   | <b>(259,807)</b>   |
| <b>Cash flows from investing activities:</b>   |   |  |  |
| Proceeds from sale of property and equipment   | 32,491  | —  | —  |
| Purchases of property and equipment  | (2,226,932)   | (6,411)  | (1,330)  |
| Patent costs   | (431,228)   | (3,498)  | (3,708)  |

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|  |                    |                |                |
|--|--------------------|----------------|----------------|
| Purchases of short-term investments              | (393,607)          | —              | —              |
| Proceeds from sale of short-term investments     | 393,607            | 199,607        | —              |
| Loan receivable                                  | (1,632,168)        | —              | —              |
| <b>Net cash used by investing activities</b>     | <b>(4,257,837)</b> | <b>189,698</b> | <b>(5,038)</b> |
| <b>Cash flows from financing activities:</b>     |                    |                |                |
| Proceeds from issuance of common stock           | 400,490            | —              | —              |
| Proceeds from issuance of preferred stock        | 9,579,040          | —              | —              |
| Equity contributions - net of fees incurred      | 41,711,198         | —              | —              |
| Proceeds from borrowings                         | 8,603,631          | —              | 100,000        |
| Proceeds from subscription receivables           | 499,395            | —              | —              |
| <b>Net cash provided by financing activities</b> | <b>60,793,754</b>  | <b>—</b>       | <b>100,000</b> |

See accompanying notes to consolidated financial statements.

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|   |               |              |            |
|---|---------------|--------------|------------|
| Net change in cash and cash equivalents                                     | 2,154,795     | (594,413)    | (164,845)  |
| Cash and cash equivalents - beginning of period                             | —             | 2,749,208    | 211,613    |
| Cash and cash equivalents - end of period                                   | \$ 2,154,795  | \$ 2,154,795 | \$ 46,768  |
| Supplemental disclosure of cash flow information:                           |               |              |            |
| Cash paid during the period for interest                                    | \$ 590,189    | \$ —         | \$ —       |
| Supplemental schedule of noncash investing and financing activities:        |               |              |            |
| Note payable principal and interest conversion to equity                    | \$ 10,376,714 | \$ —         | \$ —       |
| Issuance of member units for leasehold improvements                         | \$ 141,635    | \$ —         | \$ —       |
| Issuance of management units in settlement of cost of raising capital       | \$ 437,206    | \$ —         | \$ —       |
| Change in fair value of management units for cost of raising capital        | \$ 278,087    | \$ —         | \$ —       |
| Exchange of loan receivable for member units                                | \$ 1,632,168  | \$ —         | \$ —       |
| Issuance of equity in settlement of accounts payable                        | \$ 1,609,446  | \$ —         | \$ —       |
| Issuance of common stock in exchange for stock subscribed                   | \$ 399,395    | \$ —         | \$ —       |
| Costs paid from proceeds in conjunction with issuance preferred stock       | \$ 768,063    | \$ —         | \$ —       |
| Preferred stock dividends   | \$ 2,612,364  | \$ 170,574   | \$ 200,487 |
| Net effect of conversion of common stock to preferred stock prior to merger | \$ 559        | \$ —         | \$ —       |

During the three months ended March 31, 2009 and 2008, 300.69 and -0- Series B Preferred Shares were converted into 830,636 and -0- Common shares, respectively. During the three months ended March 31, 2009 and 2008, 441,666 and -0- Series A Preferred Shares were converted into 4,416,666 and -0- Common shares, respectively. For the period from January 22, 1997 (date of inception) to March 31, 2009, 300.69 Series B Preferred Shares and 1,004,944 Series A Preferred Shares were converted into 830,636 and 5,040,408 Common Shares, respectively.

See accompanying notes to consolidated financial statements.

MedaSorb Technologies Corporation  
Notes to Consolidated Financial Statements  
(UNAUDITED)  
March 31, 2009

## 1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the requirements of Form 10-Q of the Securities and Exchange Commission (the "Commission") and include the results of MedaSorb Technologies Corporation (the "Parent"), formerly known as Gilder Enterprises, Inc., and CytoSorbents, Inc. (f/k/a MedaSorb Technologies, Inc.), its wholly-owned operating subsidiary (the "Subsidiary"), collectively referred to as "the Company." Accordingly, certain information and footnote disclosures required in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. Interim statements are subject to possible adjustments in connection with the annual audit of the Company's accounts for the year ended December 31, 2009. In the opinion of the Company's management, the accompanying unaudited consolidated financial statements contain all adjustments (consisting only of normal recurring adjustments) which the Company considers necessary for the fair presentation of the Company's consolidated financial position as of March 31, 2009 and the results of its operations and cash flows for the three month periods ended March 31, 2009 and 2008, and for the period January 22, 1997 (date of inception) to March 31, 2009. Results for the three months ended are not necessarily indicative of results that may be expected for the entire year. The unaudited condensed consolidated financial statements should be read in conjunction with the audited financial statements of the Company and the notes thereto as of and for the year ended December 31, 2008 as included in the Company's Form 10-K filed with the Commission on April 10, 2009.

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. The Company has experienced negative cash flows from operations since inception and has a deficit accumulated during the development stage at March 31, 2009 of \$76,392,206. The Company is not currently generating revenue and is dependent on the proceeds of present and future financings to fund its research, development and commercialization program. The Company is continuing its fund-raising efforts. Although the Company has historically been successful in raising additional capital through equity and debt financings, there can be no assurance that the Company will be successful in raising additional capital in the future or that it will be on favorable terms. Furthermore, if the Company is successful in raising the additional financing, there can be no assurance that the amount will be sufficient to complete the Company's plans. These consolidated financial statements do not include any adjustments related to the outcome of this uncertainty.

The Company is a development stage company and has not yet generated any revenues. Since inception, the Company's expenses relate primarily to research and development, organizational activities, clinical manufacturing, regulatory compliance and operational strategic planning. Although the Company has made advances on these matters, there can be no assurance that the Company will continue to be successful regarding these issues, nor can there be any assurance that the Company will successfully implement its long-term strategic plans.

The Company has developed an intellectual property portfolio, including 25 issued and multiple pending patents, covering materials, methods of production, systems incorporating the technology and multiple medical uses.

## 2. PRINCIPAL BUSINESS ACTIVITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Business

The Company, through its subsidiary, is engaged in the research, development and commercialization of medical devices with its platform blood purification technology incorporating a proprietary adsorbent polymer technology. The Company is focused on developing this technology for multiple applications in the medical field, specifically to provide improved blood purification for the treatment of acute and chronic health complications associated with blood toxicity. As of March 31, 2009, the Company has not commenced commercial operations and, accordingly, is in the development stage. The Company has yet to generate any revenue and has no assurance of future revenue.

#### Principles of Consolidation

The consolidated financial statements include the accounts of the Parent, MedaSorb Technologies Corporation, and its wholly-owned subsidiary, CytoSorbents, Inc. All significant intercompany transactions and balances have been eliminated in consolidation.

#### Development Stage Corporation

The accompanying consolidated financial statements have been prepared in accordance with the provisions of Statement of Financial Accounting Standard (SFAS) No. 7, "Accounting and Reporting by Development Stage Enterprises."

#### Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

#### Short Term Investments

Short-term investments include short-term bank certificates of deposit with original maturities of between three and twelve months. These short-term notes are classified as held to maturity and are valued at cost, which approximates fair value. These investments are considered Level 1 investments under SFAS 157.

#### Property and Equipment

Property and equipment are recorded at cost less accumulated depreciation. Depreciation of property and equipment is provided for by the straight-line method over the estimated useful lives of the related assets. Leasehold improvements are amortized over the lesser of their economic useful lives or the term of the related leases. Gains and losses on depreciable assets retired or sold are recognized in the statements of operations in the year of disposal. Repairs and maintenance expenditures are expensed as incurred.

#### Patents

Legal costs incurred to establish patents are capitalized. When patents are issued, capitalized costs are amortized on the straight-line method over the related patent term. In the event a patent is abandoned, the net book value of the patent is written off.

#### Impairment or Disposal of Long-Lived Assets

The Company assesses the impairment of patents and other long-lived assets under SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" whenever events or changes in circumstances indicate that the carrying value may not be recoverable. For long-lived assets to be held and used, the Company recognizes an impairment loss only if its carrying amount is not recoverable through its undiscounted cash flows and measures the impairment loss based on the difference between the carrying amount and fair value.

#### Research and Development

All research and development costs, payments to laboratories and research consultants are expensed when incurred.

#### Income Taxes

Income taxes are accounted for under the asset and liability method prescribed by SFAS No. 109, "Accounting for Income Taxes." Deferred income taxes are recorded for temporary differences between financial statement carrying amounts and the tax basis of assets and liabilities. Deferred tax assets and liabilities reflect the tax rates expected to be in effect for the years in which the differences are expected to reverse. A valuation allowance is provided if it is more likely than not that some or all of the deferred tax asset will not be realized. Under Section 382 of the Internal Revenue Code the net operating losses generated prior to the reverse merger may be limited due to the change in ownership. Additionally, net operating losses generated subsequent to the reverse merger may be limited in the event of changes in ownership.

#### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities. Actual results could differ from these estimates.

Significant estimates in these financials are the valuation of options granted and the valuation of preferred shares issued as stock dividends.

#### Concentration of Credit Risk

The Company maintains cash balances, at times, with financial institutions in excess of amounts insured by the Federal Deposit Insurance Corporation. Management monitors the soundness of these institutions in an effort to minimize its collection risk of these balances.

#### Financial Instruments

The carrying values of cash and cash equivalents, short-term investments, accounts payable and other debt obligations approximate their fair values due to their short-term nature.

#### Stock-Based Compensation

The Company accounts for its stock-based compensation under the recognition requirements of Statement of Financial Accounting Standards ("SFAS") No. 123(R). "Accounting for Stock-Based Compensation", for employees and directors whereby each option granted is valued at fair market value on the date of grant. Under SFAS No. 123, the fair value of each option is estimated on the date of grant using the Black-Scholes option pricing model.

The Company also follows the guidance in EITF 96-18 "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services" for equity instruments issued to consultants.

#### Net Loss Per Common Share

Basic EPS is computed by dividing income (loss) available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted EPS gives effect to all dilutive potential common shares outstanding during the period. The computation of Diluted EPS does not assume conversion, exercise or contingent exercise of securities that would have an anti-dilutive effect on earnings. (See Note 6)

#### Effects of Recent Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations" ("SFAS 141(R)"). This Statement replaces SFAS No. 141, "Business Combinations" ("SFAS 141"). This Statement retains the fundamental requirements in SFAS 141 that the acquisition method of accounting (which SFAS 141 called the purchase method) be used for all business combinations and for an acquirer to be identified for each business combination. This Statement also establishes principles and requirements for how the acquirer: a) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree; b) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase and c) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141(R) will apply prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. An entity may not apply it before that date. The provisions of SFAS 141(R) did not have a significant impact on the Company's statements of operations or financial position.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities," and Amendment of FASB Statement No. 133. SFAS 161 amends SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," to amend and expand the disclosure requirements of SFAS 133 to provide greater transparency about (i) how and why an entity uses derivative instruments, (ii) how derivative instruments and related hedge items are accounted for under SFAS 133 and its related interpretations, and (iii) how derivative instruments and related hedged items affect an entity's financial position, results of operations and cash flows. To meet those objectives, SFAS 161 requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of gains and losses on derivative instruments and disclosures about credit-risk-related contingent features in derivative agreements. SFAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008. The provisions of SFAS 161 did not have a significant impact on the Company's statements of operations or financial position.

### 3. CONVERTIBLE NOTES

The Company has outstanding Promissory Notes in the aggregate principal amount of \$50,000, due in September 2009, which bear interest at the rate of 10% per annum. The holder of the Promissory notes has the option to convert, on an all-or-none basis, the entire principal and outstanding interest of their Notes into the Series B Preferred Stock issued in June 2008. In addition, pursuant to the terms of such Promissory Notes, upon such conversion, each note holder will receive five-year warrants to purchase that number of shares of Common Stock equal to the quotient obtained by dividing (x) 25% of the principal amount of the Promissory Note being converted, by (y) \$0.0362, the purchase price per share of Common Stock issuable upon conversion of the Series B Preferred Stock.

### 4. STOCKHOLDERS' EQUITY (DEFICIT)

During the three months ended March 31, 2009 the Company recorded non-cash stock dividends totaling \$170,574 in connection with the issuance of 1,382.94 shares of Series B Preferred Stock and 211,706 shares of Series A Preferred Stock as a stock dividend to its preferred shareholders as of March 31, 2009. The Company has estimated the fair value of the shares issued as stock dividends based upon the last completed financing transaction involving the underlying common shares in June 2008.



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During the three months ended March 31, 2009, the Company issued stock options to employees, consultants and directors resulting in aggregate compensation expense of \$8,378, of which \$584 and \$7,794 is presented in research and development expenses and general and administrative expenses, respectively.

The summary of the stock option activity for the three months ended March 31, 2009 is as follows:

|                              | Shares     | Weighted<br>Average<br>Exercise<br>per Share | Weighted<br>Average<br>Remaining<br>Life (Years) |
|------------------------------|------------|--|--|
| Outstanding, January 1, 2009 | 18,158,846 | \$ 1.05                                      | 9.1  |
| Granted                      | 5,118,858  | \$ 0.123                                     | 9.7  |
| Cancelled                    | —          | \$ —   | —  |
| Exercised                    | —          | \$ —   | —  |
| Outstanding March 31, 2009   | 23,277,704 | \$ 0.84                                      | 9.1  |

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The fair value of each stock option was valued using the Black Scholes pricing model which takes into account as of the grant date the exercise price (ranging from \$0.084 to \$0.168 per share) and expected life of the stock option (ranging from 5-10 years), the current price of the underlying stock and its expected volatility (approximately 25 percent), expected dividends (-0- percent) on the stock and the risk free interest rate (2.7 percent) for the term of the stock option.

At March 31, 2009, the aggregate intrinsic value of options outstanding and currently exercisable amounted to approximately \$10,500.

The summary of the status of the Company's non-vested options for the three months ended March 31, 2009 is as follows:

|                             | Shares      | Weighted<br>Average<br>Grant<br>Date<br>Fair<br>Value |
|-----------------------------|-------------|---|
| Non-vested, January 1, 2009 | 6,280,604   | \$ 0.05   |
| Granted                     | 5,118,858   | \$ 0.003  |
| Cancelled                   | —           | —   |
| Vested                      | (3,163,762) | \$ 0.053  |
| Exercised                   | —           | —   |
| Non-vested, March 31, 2009  | 8,235,700   | \$ .02  |

As of March 31, 2009, approximately \$258,499 of total unrecognized compensation cost related to stock options is expected to be recognized over a weighted average period of 1.2 years.

As of March 31, 2009, the Company has the following warrants to purchase common stock outstanding:

| Number of Shares<br>To be Purchased | Warrant<br>Exercise<br>Price per Share | Warrant<br>Expiration Date |
|-------------------------------------|--|----------------------------|
| 15,569                              | \$ 6.64                                | March 31, 2010             |
| 816,691                             | \$ 4.98                                | June 30, 2011              |
| 1,200,000                           | \$ 0.90                                | June 30, 2011              |
| 900,000                             | \$ 0.40                                | June 30, 2011              |
| 339,954                             | \$ 2.00                                | September 30, 2011         |
| 52,080                              | \$ 2.00                                | July 31, 2011              |
| 400,000                             | \$ 0.40                                | October 31, 2011           |
| 240,125                             | \$ 1.25                                | October 24, 2016           |
| 3,986,429                           | \$ 0.035                               | June 25, 2013              |

As of March 31, 2009, the Company has the following warrants to purchase Series A Preferred Stock outstanding:

| Number of<br>Shares to be<br>Purchased | Warrant<br>Exercise<br>Price per | Warrant<br>Expiration<br>Date |
|--|----------------------------------|-------------------------------|
|--|----------------------------------|-------------------------------|

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|         | Preferred<br>Share |               |
|---------|--------------------|---------------|
| 525,000 | \$ 1.00            | June 30, 2011 |

If the holder of warrants for preferred stock exercises in full, the holder will receive additional five-year warrants to purchase a total of 210,000 shares of common stock at \$0.40 per share.

As of March 31, 2009, the Company has the following warrant to purchase Series B Preferred Stock outstanding:

| Number of<br>Shares to be<br>Purchased | Warrant<br>Exercise<br>Price per<br>Preferred<br>Share | Warrant<br>Expiration<br>Date |
|--|--|-------------------------------|
| 15,000                                 | \$ 100.00  | September 25, 2009            |

## 5. COMMITMENTS AND CONTINGENCIES

### Employment Agreements

The Company has employment agreements with certain key executives through December 2009. The agreements provide for annual base salaries of varying amounts.

### Litigation

The Company is involved in various claims and legal actions. Management is of the opinion that these claims and legal actions have no merit, and their ultimate outcome will not have a material adverse impact on the consolidated financial position of the Company and/or the results of its operations.

### Royalty Agreements

Pursuant to an agreement dated August 11, 2003, an existing investor agreed to make a \$4 million equity investment in the Company. These amounts were received by the Company in 2003. In connection with this agreement, the Company granted the investor a future royalty of 3% on all gross revenues received by the Company from the sale of its CytoSorb device. The Company has not generated any revenue from this product and has not incurred any royalty costs through March 31, 2009. The amount of future revenue subject to the royalty agreement could not be reasonably estimated nor has a liability been incurred, therefore, an accrual for royalty payments has not been included in the consolidated financial statements.

### License Agreements

In an agreement dated September 1, 2006, the Company entered into a license agreement which provides the Company the exclusive right to use its patented technology and proprietary know how relating to adsorbent polymers for a period of 18 years. Under the terms of the agreement, MedaSorb has agreed to pay royalties of 2.5% to 5% on the sale of certain of its products if and when those products are sold commercially for a term not greater than 18 years commencing with the first sale of such product. The Company has not generated any revenue from its products and has not incurred any royalty costs through March 31, 2009. The amount of future revenue subject to the license agreement could not be reasonably estimated nor has a liability been incurred, therefore, an accrual for royalty payments has not been included in the consolidated financial statements.

### Warrant agreement

As inducement to invest additional funds in the private placement of Series B Preferred Stock, additional consideration was granted to the participants of the Series B Preferred Stock offering in the event that litigation is commenced against Medasorb prior to June 30, 2018, claiming patent infringement on certain of the Company's issued patents. In the event this litigation arises the Company may be required to issue warrants to purchase in the aggregate up to a maximum of ten million shares of Common Stock subject to certain adjustments. Through March 31, 2009 no such litigation has arisen and due to the deemed low probability of this potential outcome; the Company has not booked a contingent liability for this agreement.

## 6. NET LOSS PER SHARE

Basic loss per share and diluted loss per share for the three months ended March 31, 2009 and 2008 have been computed by dividing the net loss for each respective period by the weighted average number of shares outstanding during that period. All outstanding warrants and options representing 31,228,552 and 9,076,921 incremental shares at March 31, 2009 and 2008, respectively, as well as shares issuable upon conversion of Series A and Series B Preferred

Stock and Preferred Stock Warrants representing 239,010,409 and 7,205,996 incremental shares at March 31, 2009 and 2008, respectively, as well as shares issuable upon potential long-term Note conversion into Series B Preferred Stock and Common Warrants representing approximately 1,726,519 shares have been excluded from the computation of diluted loss per share as they are anti-dilutive.

#### 7. SUBSEQUENT EVENTS

During April 2009 a total of 230,000 shares of Series A Preferred Stock were converted into 2,300,000 shares of Common Stock.

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

These unaudited condensed consolidated financial statements and management's discussion should be read in conjunction with the audited financial statements of the Company and the notes thereto as of and for the year ended December 31, 2008 as included in the Company's Form 10-K filed with the Securities and Exchange Commission (the "Commission") on April 10, 2009.

Forward-looking statements

Statements contained in this Quarterly Report on Form 10-Q, other than the historical financial information, constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All such forward-looking statements involve known and unknown risks, uncertainties or other factors which may cause actual results, performance or achievement of the Company to be materially different from any future results, performance or achievement expressed or implied by such forward-looking statements. Primary risk factors include, but are not limited to: ability to successfully develop commercial operations; the ability to obtain adequate financing in the future when needed; dependence on key personnel; acceptance of the Company's medical devices in the marketplace; obtaining government approvals, including required FDA approvals; compliance with governmental regulations; reliance on research and testing facilities of various universities and institutions; product liability risks; limited manufacturing experience; limited marketing, sales and distribution experience; market acceptance of the Company's products; competition; unexpected changes in technologies and technological advances; and other factors detailed in the Company's Current Report on Form 10-K filed with the Commission on April 10, 2009.

Plan of Operations

We are a development stage company and expect to remain so for at least the next twelve months. We have not generated revenues to date and do not expect to do so until we commercialize and receive the necessary regulatory approvals to sell our proposed products. We will seek to commercialize a blood purification technology that efficiently removes middle molecular weight toxins from circulating blood and physiologic fluids.

We are focusing our efforts on the commercialization of our CytoSorb™ product. The first indication for CytoSorb™ will be in the adjunctive treatment of sepsis (bacterial infection of the blood), which causes systematic inflammatory response syndrome. CytoSorb™ has been designed to prevent or reduce the accumulation of high concentrates of cytokines in the bloodstream associated with sepsis. It is intended for short term use as an adjunctive device to the standard treatment of sepsis. To date, we have manufactured the CytoSorb™ device on a limited basis for testing purposes, including for use in clinical studies. We believe that current state of the art blood purification technology (such as dialysis) is incapable of effectively clearing the toxins intended to be adsorbed by our CytoSorb™ device.

Following the sepsis indication, we intend to continue our research in other acute conditions where CytoSorb™ has indicated potential in preliminary studies to prevent or reduce the accumulation of cytokines in the bloodstream. These conditions include the prevention of post-operative complications of cardiac surgery (cardiopulmonary bypass surgery) and damage to organs donated for transplant prior to organ harvest. We are also exploring the potential benefits the CytoSorb™ device may have in removing drugs from blood.

In December 2006, we submitted a proposed pilot study for approval to the FDA with respect to our CytoSorb™ device. In the first quarter of 2007, we received approval from the FDA to conduct a limited study of five patients in the adjunctive treatment of sepsis. Based on management's belief that proceeding with the approved limited study would add at least one year to the approval process for the United States, we made a determination to focus our efforts on obtaining regulatory approval in Europe before proceeding with the FDA.

We estimate that the market potential in Europe for our products is substantially equivalent to that in the U.S. Given the opportunity to conduct a much larger clinical study in Europe, and management's belief that the path to a CE Mark should be faster than FDA approval, we decided to target Europe as the introductory market for our CytoSorb™ product. To accomplish the European introduction, in July 2007 we prepared and filed a request for a clinical trial with a German Central Ethics Committee. We received approval of the final study design in October of 2007.

We received approval from the German Ethics Committee in October of 2007 to conduct a clinical study of up to 80 patients with acute respiratory distress syndrome or acute lung injury in the setting of sepsis. By December 31, 2008 we had initiated and opened for enrollment seven (7) hospital units to participate in our clinical study and had identified an additional six (6) sites that may be added to our study to accelerate enrollment. As of March 2009 we have increased the number of hospital units participating in our study to ten (10).

In April 2009, we submitted a protocol revision to expand the options for anti-coagulation that the clinical sites may use, and to increase the total number of patients that may be enrolled from 80 to 100 patients. This revision has been approved by the German Ethics Committee. We believe that the revised protocol will enable more potential sites to participate in the study, and may help accelerate patient enrollment through greater access to potential candidates. Further, while we do not anticipate enrolling more than 80 patients, we now have the flexibility to enroll up to 100 patients if needed.

Additionally, we have updated blood sampling and handling procedures to minimize non-device related artifacts that may potentially arise if the samples are not processed appropriately.

To date we have enrolled twenty three (23) patients in the clinical study, which have been randomized yielding eleven (11) treated and twelve (12) control (non-treated) patients. We hope to enroll approximately sixty (60) additional patients. While we do not anticipate enrolling the entire 100 patients that we are now entitled to enroll, the approved increase allows us some flexibility in the event any of the enrolled patients are not able to complete the study due to withdrawal or inability to complete post treatment follow-up. In conducting the German Clinical study we have utilized our CytoSorb™ device in over 75 treatments to date with no Serious Adverse Events attributable to the device.

We expect to complete the patient enrollment by the end of 2009. Concurrent with the clinical study, we expect to commence the CE Mark submission process. Assuming a successful outcome of the study, management believes it will take an additional 6-9 months following its submission for CE Mark approval to receive the European regulatory approval. Assuming availability of adequate and timely funding, and a successful outcome to the study, management anticipates obtaining CE Mark approval in the first half of 2010, at the earliest.

The clinical protocol for our European clinical study has been designed to allow us to gather information to support future U.S. studies. In the event we receive the CE Mark and are able to successfully commercialize our products in the European market, we will review our plans for the United States to determine whether to conduct clinical trials in support of 510K or PMA registration. No assurance can be given that our proposed CytoSorb™ product will work as intended or that we will be able to obtain CE Mark (or FDA) approval to sell CytoSorb™. Even if we ultimately obtain CE Mark approval, because we cannot control the timing of responses from regulators to our submissions, there can be no assurance as to when such approval will be obtained.

Our research and development costs were, \$488,555 and \$355,127, for the three months ended March 31, 2009 and 2008 respectively. We have experienced substantial operating losses since inception. As of March 31, 2009, we had an accumulated deficit of \$76,392,206 which included losses of \$760,151 for the three month period ended March 31, 2009. In comparison, we had losses of \$646,050 for the three month period ended March 31, 2008. Historically, our losses have resulted principally from costs incurred in the research and development of our polymer technology, and general and administrative expenses, which together were \$716,889 and \$588,651 for the three month periods ended March 31, 2009 and 2008, respectively.

#### Off-balance Sheet Arrangements

We have no off-balance sheet arrangements.

#### Liquidity and Capital Resources

Since inception, our operations have been financed through the private placement of our debt and equity securities. At December 31, 2008 we had cash of \$2,749,208. As of March 31, 2009 we had cash on hand of \$2,154,795, and current liabilities of \$893,067.

We believe that we have sufficient cash to fund our operations through the third quarter of 2009, following which we will need additional funding before we can complete our clinical studies and commercialize our products. We will continue to seek funding for the long term needs of the Company. There can be no assurance that financing will be available on acceptable terms or at all. If adequate funds are unavailable, we may have to suspend, delay or eliminate one or more of our research and development programs or product launches or marketing efforts or cease operations.

Our Annual Report dated December 31, 2008 was prepared assuming we will continue as a going concern, and the auditors' report on those financial statements expresses substantial doubt about our ability to continue as a going concern.

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

Not applicable to smaller reporting companies.

#### Item 4(T). Controls and Procedures.

##### Management's annual report on internal control over financial reporting

Management of Medasorb is responsible for establishing and maintaining adequate internal control over financial reporting under the supervision of the President and Chief Executive Officer and the Chief Financial Officer. Internal control over financial reporting is a process designed 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.

Management evaluated the design and operation of our internal control over financial reporting as of March 31, 2009, based on the framework and criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and has concluded that such internal control over financial reporting is effective. There are no material weaknesses that have been identified by management.

An evaluation was performed, under the supervision of, and with the participation of, our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-(e) to the Securities and Exchange Act of



1934). Based on that evaluation, the Company's management, including our Chief Executive Officer and Chief Financial Officer, concluded that the Company's disclosure controls and procedures were adequate and effective, as of March 31, 2009, to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934, is recorded, processed, summarized, and reported within the time periods specified in the Commission's rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

We do not expect that our disclosure controls and procedures or internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable assurance that the objectives of the system are met and cannot detect all deviations. Because of the inherent limitations in all control systems, no evaluation of control can provide absolute assurance that all control issues and instances of fraud or deviations, if any, within the Company have been detected.

This report does not include an attestation report of the company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the company to provide only management's report in this report.

#### Changes in internal control over financial reporting

There were no significant changes in our internal controls over financial reporting that occurred subsequent to our evaluation of our internal control over financial reporting for the three months ended March 31, 2009 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

In February 2008, Alkermes, Inc. commenced an action against us in the United States District Court for the District of Massachusetts, alleging that our use of the name MedaSorb infringes on Alkermes' registered trademark "MEDISORB." In the action, Alkermes sought an injunction against our further use of the name MedaSorb. Pursuant to a Settlement Agreement dated June 18, 2008, the Company will continue to use the name MedaSorb Technologies Corporation for the near term, but its wholly-owned subsidiary, through which the Company conducts all of its operational activities, has ceased using the "MedaSorb" name to avoid any potential confusion with Alkermes' similarly named product. The operating subsidiary has been renamed CytoSorbents, Inc. as of November 2008.

Item 1A. Risk Factors

Not required to be provided by smaller reporting companies.

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

None.

Item 3. Defaults Upon Senior Securities

None.

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

In February 2009, our Series B Preferred Shareholders voted to approve to waive any Event of Default and liability due upon an Event of Default pursuant to Section 6(ix) of the Certificate of Designation of Series B Preferred Shares that shall arise from or in connection with the occurrence of a Non-Registration Event as provided in Section 11.4 of the Series B Subscription Agreement. The Registration Statement has been filed but it has not been declared effective as of the date of this filing. A copy of the Resolution of the Series B Preferred Shareholders to Waive the Registration Penalty is attached as Exhibit 10.1 hereto.

Item 5. Other Information

None.

Item 6. Exhibits.

| Number | Description  |
|--------|--|
| 10.1   | Resolution of the Series B Preferred Shareholders to Waive Registration Penalties  |
| 31.1   | Certification of Phillip Chan, Chief Executive Officer of the Registrant, pursuant to Rules 13a-14(a) and 15(d)-14(a) of the Securities Exchange Act of 1934   |
| 31.2   | Certification of David Lamadrid, Chief Financial Officer of the Registrant, pursuant to Rules 13a-14(a) and 15(d)-14(a) of the Securities Exchange Act of 1934 |
| 32.1   |  |

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Certification of Phillip Chan, Chief Executive Officer of the Registrant, pursuant to Rules 13a-14(B) and 15(d)-14(b) of the Securities Exchange Act of 1934

32.2 Certification of David Lamadrid, Chief Financial Officer of the Registrant, pursuant to Rules 13a-14(B) and 15(d)-14(b) of the Securities Exchange Act of 1934

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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.

MEDASORB TECHNOLOGIES CORPORATION

Dated: May 13, 2008

By: /s/ David Lamadrid  
Name: David Lamadrid  
Title: Chief Financial Officer

(On behalf of the registrant and as  
principal accounting officer)