Cytosorbents Corp
Form 10-Q
August 14, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2013

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

CYTOSORBENTS CORPORATION

(Exact name of registrant as specified in its charter)

Nevada	**98-0373793**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

7 Deer Park Drive, Suite K

Monmouth Junction, New Jersey 08852

(Address of principal executive offices) (Zip Code)

(732) 329-8885

(Registrant's telephone number, including area code)

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 þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨		Accelerated filer ¨
Non-accelerated filer ¨	(Do not check if a smaller reporting company)	Smaller reporting company þ

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

As of August 12, 2013 there were 245,140,616 shares of the issuer's common stock, par value $0.001, outstanding.

CytoSorbents Corporation

(a development stage company)

FORM 10-Q

June 30, 2013

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements.

CYTOSORBENTS CORPORATION

(a development stage company)

CONSOLIDATED BALANCE SHEETS

	June 30, 2013 (Unaudited)	December 31, 2012
ASSETS		
Current Assets:		
Cash and cash equivalents	$1,870,612	$1,729,344
Accounts receivable, net of allowance for doubtful accounts at $-0-	84,065	51,779
Inventories	476,550	682,372
Prepaid expenses and other current assets	155,673	476,093
Total current assets	2,586,900	2,939,588
Property and equipment – net	142,679	145,600
Other assets	251,432	254,220
Total long-term assets	394,111	399,820
Total Assets	$2,981,011	$3,339,408
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$720,560	$800,670
Accrued expenses and other current liabilities	471,337	349,841
Convertible notes payable, net of debt discount in the amount of $185,893 at June 30, 2013 and $178,775 at December 31, 2012	912,107	926,225
Total current liabilities	2,104,004	2,076,736
Total liabilities	2,104,004	2,076,736
Redeemable Series B Convertible Preferred Stock, par value $0.001, 200,000 shares authorized at June 30, 2013 and December 31, 2012, respectively, 75,523.69 and	14,062,012	12,887,817

72,073.26 issued and outstanding , respectively

Stockholders’ Equity (Deficit):

10% Series A Convertible Preferred Stock, par value $0.001, 12,000,000 shares authorized at June 30, 2013 and December 31, 2012, respectively; 1,674,866 and 1,594,164 shares issued and outstanding, respectively	1,675	1,594
Common Stock, par value $0.001, 800,000,000 shares authorized at June 30, 2013 and 500,000,000 shares authorized at December 31, 2012, 234,402,063 and 214,967,503 shares issued and outstanding, respectively	234,402	214,968
Additional paid-in capital	89,574,145	86,903,415
Deficit accumulated during the development stage	(102,979,296)	(98,732,460)
Accumulated other comprehensive loss	(15,931)	(12,662)
Total stockholders' equity	(13,185,005)	(11,625,145)
Total Liabilities and Stockholders' Equity	$2,981,011	$3,339,408

See accompanying notes to consolidated financial statements.

CYTOSORBENTS CORPORATION

(a development stage company)

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

	Period from January 22,1997 (date of inception) to June 30, 2013 (Unaudited)	Six months ended June 30,		Three months ended June 30,	
		2013 (Unaudited)	2012 (Unaudited)	2013 (Unaudited)	2012 (Unaudited)
Revenue:					
Sales	$491,719	$304,067	$49,935	$127,969	$33,042
Grant and other income	2,550,553	358,746	83,333	163,514	50,000
Total revenue	3,042,272	662,813	133,268	291,483	83,042
Cost of revenue	1,286,937	453,066	20,160	199,555	10,080
Gross profit	1,755,335	209,747	113,108	91,928	72,962
Other Expenses:					
Research and development	55,341,759	1,412,300	1,392,364	708,159	715,750
Legal, financial and other consulting	8,997,674	412,539	234,827	189,793	73,535
Selling, general and administrative	27,625,191	1,213,980	562,646	600,818	293,180
Change in fair value of management incentive units	(6,055,483)	—	—	—	—
Total expenses	85,909,141	3,038,819	2,189,837	1,498,770	1,082,465
Loss from operations	(84,153,806)	(2,829,072)	(2,076,729)	(1,406,842)	(1,009,503)
Other (income)/expense:					
Gain on disposal of property and equipment	(21,663)	—	—	—	—
Gain on extinguishment of debt	(216,617)	—	—	—	—
Interest (income)/expense, net	7,516,409	214,859	397,177	8,147	37,807
Penalties associated with non-registration of Series A Preferred Stock	361,495	—	—	—	—
Total other (income) expense, net	7,639,624	214,859	397,177	8,147	37,807
Loss before benefit from income taxes	(91,793,430)	(3,043,931)	(2,473,906)	(1,414,989)	(1,047,310)

Benefit from income taxes	(939,074)	—	—	—	—
Net loss	(90,854,356)	(3,043,931)	(2,473,906)	(1,414,989)	(1,047,310)
Preferred stock dividend	12,124,940	1,202,905	1,241,121	616,488	577,204
Net Loss available to common shareholders	$(102,979,296)	$(4,246,836)	$(3,715,027)	$(2,031,477)	$(1,624,514)
Basic and diluted net loss per common share		$(0.02)	$(0.02)	$(0.01)	$(0.01)
Weighted average number of shares of common stock outstanding		227,299,644	187,795,284	231,583,119	194,439,923
Net loss	$(90,854,356)	$(3,043,931)	$(2,473,906)	$(1,414,989)	$(1,047,310)
Other comprehensive loss: Currency translation adjustment	(15,931)	(3,269)	—	(867)	—
Comprehensive loss	$(90,870,287)	$(3,047,200)	$(2,473,906)	$(1,415,856)	$(1,047,310)

See accompanying notes to consolidated financial statements.

CYTOSORBENTS CORPORATION

(a development stage company)

CONSOLIDATED STATEMENT OF CHANGES IN REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY (DEFICIENCY)

	Period from December 31, 2012 to June 30, 2013 (Unaudited)								
	Series B Redeemable Convertible Preferred Stock		Common Stock		Preferred Stock A		Paid-In	Accumulated Other Comprehensive	Deficit Accumu
	Shares	Amount	Shares	Par value	Shares	Par Value	Capital	Loss	Stage
Balance at December 31, 2012	72,073.26	$12,887,817	214,967,503	$214,968	1,594,164	$1,594	$86,903,415	$(12,662)	$(98,73
Stock based compensation - employees, consultants and directors							266,490		
Issuance of common stock for services rendered			500,000	500			64,968		
Issuance of Series A Preferred Stock as dividends					80,702	81	8,243		(8,324
Issuance of Series B Preferred Stock	3,648.70	1,194,581							(1,194

as dividends									
Conversion of Series A and Series B Preferred into Common	(198.27)	(20,386)	547,707	548			19,838		
Issuance of common stock for cash			8,150,204	8,150			891,817		
Conversion of convertible notes to common			9,739,912	9,740			1,216,302		
Relative fair value of warrants and beneficial conversion feature in connection with issuance of convertible notes							188,468		
Exercise of stock options			496,737	496			14,604		
Other comprehensive income/(loss): foreign translation adjustment								(3,269)	
Net loss									(3,043
Balance at June 30, 2013	75,523.69	$14,062,012	234,402,063	$234,402	1,674,866	$1,675	$89,574,145	$(15,931)	$(102,9

See accompanying notes to consolidated financial statements.

CYTOSORBENTS CORPORATION

(a development stage company)

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Period from January 22,1997 (date of inception) to June 30, 2013 (Unaudited)	Six months Ended June 30, 2013 (Unaudited)	Six months ended June 30, 2012 (Unaudited)
Cash flows from operating activities:			
Net loss	$(90,854,356)	$(3,043,931)	$(2,473,906)
Adjustments to reconcile net loss to net cash used in operating activities:			
Common stock issued as inducement to convert convertible notes payable and accrued interest	3,351,961	—	—
Issuance of common stock to consultant for services	95,468	65,468	—
Depreciation and amortization	2,535,606	31,585	21,415
Amortization of debt discount	2,647,079	181,350	382,478
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	533,648	—	—
Expense for issuance of options	2,834,678	266,490	4,532
Amortization of deferred compensation	74,938	—	—
Penalties in connection with non-registration event	361,496	—	—
Changes in operating assets and liabilities:			
Accounts receivable	(84,065)	(32,286)	(7,316)
Inventories	(476,550)	205,822	(104,236)
Prepaid expenses and other current assets	(427,221)	320,420	(102,340)
Other assets	(37,511)	9,442	—
Accounts payable and accrued expenses	3,268,232	162,428	60,581
Accrued interest expense	1,823,103	—	—
Net cash used by operating activities	(68,027,068)	(1,833,212)	(2,218,792)

Cash flows from investing activities:			
Proceeds from sale of property and equipment	32,491	—	—
Purchases of property and equipment	(2,443,359)	(22,549)	(1,065)
Patent costs	(511,283)	(12,769)	(24,957)
Purchases of short-term investments	(393,607)	—	—
Proceeds from sale of short-term investments	393,607	—	—
Loan receivable	(1,632,168)	—	—
Net cash used by investing activities	(4,554,319)	(35,318)	(26,022)
Cash flows from financing activities:			
Proceeds from issuance of common stock	400,490	—	—
Proceeds from issuance of preferred stock, net of related issuance costs	9,579,040	—	—
Equity contributions - net of fees incurred	50,971,278	899,967	2,100,000
Proceeds from borrowings	12,986,881	1,098,000	700,000
Proceeds from exercise of stock options	514,495	15,100	—
Proceeds from subscription receivables	15,746	—	—
Net cash provided by financing activities	74,467,930	2,013,067	2,800,000
Effect of exchange rates on cash	(15,931)	(3,269)	—
Net change in cash and cash equivalents	1,870,612	141,268	555,186
Cash and cash equivalents – beginning of period	—	1,729,344	1,186,653
Cash and cash equivalents - end of period	$1,870,612	$1,870,612	$1,741,839

Supplemental disclosure of cash flow information:			
Cash paid during the period for interest	$590,189	$—	$—
Supplemental schedule of noncash investing and financing activities:			
Debt discount in connection with issuance of convertible debt	$1,832,973	$188,468	$87,700
Fair value of shares issued as costs of raising capital	$604,118	$20,632	$213,584
Note payable principal and interest conversion to equity	$13,175,491	$1,226,042	$395,153
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	$1,614,446	$—	$—
Issuance of common stock in exchange for stock subscribed	$399,395	$—	$—
Costs paid from proceeds in conjunction with issuance of preferred stock	$768,063	$—	$—
Preferred stock dividends	$12,124,940	$1,202,905	$1,241,121
Net effect of conversion of common stock to preferred stock prior to merger	$559	$—	$—

During the six months ended June 30, 2013 and 2012, 198.27 and 140.87 Series B Preferred Shares were converted into 547,707 and 388,603 Common shares, respectively. During the six months ended June 30, 2013 and 2012, -0- and 3,003 Series A Preferred Shares were converted into -0- and 30,030 Common shares, respectively. For the period from January 22, 1997 (date of inception) to June 30, 2013, 22,774.45 Series B Preferred Shares and 9,558,112 Series A Preferred Shares were converted into 62,912,304 and 43,728,457 Common Shares, respectively.

See accompanying notes to consolidated financial statements.

CytoSorbents Corporation

Notes to Consolidated Financial Statements

(UNAUDITED)

June 30, 2013

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 CytoSorbents Corporation (the "Parent"), CytoSorbents, Inc., its wholly-owned operating subsidiary (the "Subsidiary"), and CytoSorbents Europe GmbH, its wholly-owned European subsidiary (the "European 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, 2013. 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 June 30, 2013 and the results of its operations and cash flows for the six and three month periods ended June 30, 2013 and 2012, and for the period January 22, 1997 (date of inception) to June 30, 2013. Results for the six and 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, 2012 as included in the Company's Form 10-K filed with the Commission on April 03, 2013.

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 June 30, 2013 of $102,979,296. The Company is not currently generating significant revenue and is dependent on the proceeds of present and future financings to fund its research, development and commercialization program. These matters raise substantial doubt about the Company's ability to continue as a going concern. 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. We believe that we have sufficient cash to fund our operations into the fourth quarter of 2013, following which we will need additional funding before we can complete additional clinical studies and continue to commercialize our products. 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 significant revenues from inception to June 30, 2013. Since inception, the Company's expenses relate primarily to research and development, organizational activities, clinical manufacturing, regulatory compliance, sales 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 32 issued U.S. patents, 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 CytoSorbents, Inc., 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, through its European Subsidiary, has commenced initial sales and marketing related operations for the CytoSorb® device in the European Union. 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. In March 2011, the Company received CE Mark approval for its CytoSorb® device, and in June 2012, officially launched CytoSorb® for commercial sale in Germany and later in Austria and Switzerland with a small direct sales force. As of June 30, 2013, the Company had only limited commercial operations and, accordingly, is in the development stage. The Company has yet to generate any significant revenue and has no assurance of future revenue.

Principles of Consolidation

The consolidated financial statements include the accounts of the Parent, CytoSorbents Corporation, and its wholly-owned subsidiaries, CytoSorbents, Inc. and CytoSorbents Europe GmbH. 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 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.

Accounts Receivable

Accounts receivable are customer obligations due under normal trade terms. The Company sells its devices to various hospitals and distributors. The Company performs ongoing credit evaluations of customers' financial condition and does not require collateral. Management reviews accounts receivable periodically to determine collectability. Balances that are determined to be uncollectible are written off to the allowance for doubtful accounts. The allowance for doubtful accounts contains a general accrual for estimated bad debts and had a balance of zero at June 30, 2013 and December 31, 2012.

Inventories

Inventories are valued at the lower of cost or market. At June 30, 2013 and December 31, 2012 the Company's inventory was comprised of finished goods, which amounted to approximately $331,000 and $439,000, respectively, work in process which amounted to approximately $113,000 and $195,000, respectively and raw materials, which amounted to approximately $33,000 and $49,000, respectively.

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 accounting standards 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.

Revenue Recognition

Product Sales: Revenues from sales of products are recognized at the time of delivery when title and risk of loss passes to the customer. Recognition of revenue also requires reasonable assurance of collection of sales proceeds and completion of all performance obligations.

*Grant Revenue***:** Revenue from grant income is based on contractual agreements. Certain agreements provide for reimbursement of costs, while other agreements provide for reimbursement of costs and an overhead margin. Revenues are recognized when milestones have been achieved and revenues have been earned. Costs are recorded as incurred. Costs subject to reimbursement by these grants have been reflected as costs of revenue.

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 accounting standards for 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 the entire 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.

The Company follows accounting standards associated with uncertain tax positions. The Company had no unrecognized tax benefits at December 31, 2012 or 2011. The Company files tax returns in the U.S. with both federal and state jurisdictions and in other countries as required. The Company currently has no open years prior to December 31, 2009 and has no income tax related penalties or interest for the periods presented in these financial statements.

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, the valuation of preferred shares issued as stock dividends and valuation methods used in determining any debt discount associated with convertible securities.

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, notes payable, and other debt obligations approximate their fair values due to their short-term nature.

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).

Stock-Based Compensation

The Company accounts for its stock-based compensation under the recognition requirements of accounting standards for 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 these accounting standards, 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 of accounting standards for 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.

Effects of Recent Accounting Pronouncements

There have been no recently issued accounting standards, which would have a material impact on the Company’s financial statements.

Reclassifications

Certain items for the periods ended June 30, 2012 have been reclassified to conform to the presentation at June 30, 2013. There was no change in net income as a result of these reclassifications.

3. CONVERTIBLE NOTES

On June 21, 2013 (the "Closing Date"), the Company issued convertible notes to certain accredited investors (the "Purchasers"), whereby the Company agreed to sell and the Purchasers agreed to purchase the convertible notes in the aggregate principal amount of $1,098,000 (the "Notes"). The Notes mature one (1) year from the Closing Date (the "Maturity Date"), bear interest at an annual rate of 8%, and automatically convert into shares of the Company's common stock, $0.001 par value per share (the "Common Stock"), at a conversion price of $0.125 at maturity or earlier at the option of the Purchaser. Full conversion of the principal value of the Notes would result in the issuance of 8,784,000 shares of Common Stock. In connection with the issuance of the Notes, the Company issued warrants to purchase shares of Common Stock, providing 50% coverage, exercisable at $0.15 per share (the "Warrants").

At June 30, 2013, the Company had Convertible Notes totaling $912,107 net of debt discount of $185,893. The Notes do not contain anti-dilution provisions and the Company is not required to repay the Notes in cash. Additionally, there are no registration rights on the common stock underlying the Notes or Warrants.

At December 31, 2012 the Company had Convertible Notes totaling $926,225 net of debt discount of $178,775 outstanding. In February 2013 all outstanding Convertible Notes plus accrued interest at 8% were converted into 9,739,912 Common Shares and debt discount was charged to interest expense.

The Company allocates the proceeds associated with the issuance of promissory notes based on the relative fair value of the promissory notes and warrants. Additionally, the Company evaluates if the embedded conversion option results in a beneficial conversion feature by comparing the relative fair value allocated to the promissory notes to the market value of the underlying common stock subject to conversion. In connections with the promissory note issuances during the periods ended June 30, 2013 and 2012 the Company received proceeds of $1,098,000 and $700,000, respectively. The Company allocated the proceeds in accordance with FASB Codification Topic 470 based on the related fair value as follows for the $1,098,000: $994,982 was allocated to the promissory notes and $103,018 to the warrants. Additionally, the embedded conversion feature resulted in a beneficial conversion feature in the amount of $85,450. For the $700,000, $612,300 was allocated to the promissory notes and $38,788 to the warrants. Additionally, the embedded conversion feature resulted in a beneficial conversion feature in the amount of $48,912. The value assigned to the warrants resulting from the relative fair value calculation as well as the value of the beneficial conversion feature is recorded as a debt discount and is presented in the consolidated balance sheets. The debt discount is being amortized to interest expense over the term of the promissory notes. During the six months ended June 30, 2012 Convertible Notes in the principal and accrued interest amount of $395,153 were converted into 3,951,540 Common shares resulting in a reduction of debt discount and charge to interest expense in the amount of $235,762.

4. STOCKHOLDERS' EQUITY (DEFICIT)

During the six months ended June 30, 2013, the Company recorded non-cash stock dividends totaling approximately $1,203,000 in connection with the issuance of 3,648.70 shares of Series B Preferred Stock and 80,702 shares of Series A Preferred Stock.

During the six months ended June 30, 2013, the Company incurred stock-based compensation expense due to the issuance of stock options, and amortization of unvested stock options. The aggregate expense for the six months ended June 30, 2013 is approximately $266,990.

The summary of the stock option activity for the six months ended June 30, 2013 is as follows:

	Shares	Weighted Average Exercise Price per Share	Weighted Average Remaining Life (Years)
Outstanding, January 1, 2013	36,667,616	$ 0.23	6.1
Granted	13,985,000	$ 0.11	6.0
Cancelled	(2,235,000)	$ 0.12	—
Exercised	(496,737)	$ 0.04	—
Expired	(9,402)	$ 2.01	—
Outstanding June 30, 2013	47,911,477	$ 0.20	5.6

The fair value of each stock option was estimated using the Black Scholes pricing model which takes into account as of the grant date the exercise price (ranging from $0.106 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 28 percent), expected dividends (-0- percent) on the stock and the risk free interest rate (0.8 to 1.9 percent) for the term of the stock option. At June 30, 2013, the aggregate intrinsic value of options outstanding and currently exercisable amounted to approximately $1,169,000.

The summary of the status of the Company’s non-vested options for the six months ended June 30, 2013 is as follows:

		Weighted Average

	Shares	Grant Date Fair Value
Non-vested, January 1, 2013	7,394,000	$ 0.05
Granted	13,985,000	$ 0.03
Cancelled	(2,035,000)	$ 0.06
Vested	(5,776,000)	$ 0.05
Non-vested, June 30, 2013	13,568,000	$ 0.03

As of June 30, 2013, approximately $131,000 of total unrecognized compensation cost related to stock options is expected to be recognized over a weighted average period of 1.82 years. On April 3, 2013, the BOD approved a 2013 Stock Option Grant totaling 10,305,000 options, available in part to all eligible employees of the Company, that vests only with the achievement of certain pre-determined milestones relating to commercialization of CytoSorb®, financing, business development, and product development. Due to the uncertainty over whether approximately 9,455,000 of the 10,305,000 options granted will vest, no charge for these options has been recorded in the consolidated statements of operations for the six months ended June 30, 2013. The grant date fair value of these unvested options amounts to approximately $284,000. The Company will evaluate on an ongoing basis the probability and likelihood of any of these performance milestones being achieved and will accrue charges as it becomes likely that they will be achieved.

In addition, a pool of 22,750,000 shares of restricted stock was allocated, but not awarded, to only be awarded with the achievement of certain long-term milestones. Should these long-term milestones not be met in 2013, these restricted shares would be cancelled.

As of June 30, 2013, the Company has the following warrants to purchase common stock outstanding:

Number of Shares To be Purchased	Warrant Exercise Price per Share	Warrant Expiration Date
3,986,429	$ 0.04	July 25, 2013
397,825	$ 0.04	September 30, 2014
1,750,000	$ 0.10	August 16, 2015
1,600,000	$ 0.13	August 16, 2015
1,333,333	$ 0.15	August 16, 2015
490,000	$ 0.10	October 22, 2015
196,000	$ 0.13	October 22, 2015
163,333	$ 0.15	October 22, 2015
625,000	$ 0.10	November 2, 2015
250,000	$ 0.13	November 2, 2015
208,334	$ 0.15	November 2, 2015
500,000	$ 0.10	November 19, 2015
200,000	$ 0.13	November 19, 2015
166,667	$ 0.15	November 19, 2015
5,000,000	$ 0.10	February 15, 2016
2,200,000	$ 0.13	February 15, 2016
1,833,333	$ 0.15	February 15, 2016
240,125	$ 1.25	October 24, 2016
1,166,667	$ 0.18	February 10, 2017
4,392,000	$ 0.15	June 21, 2018
26,699,046		

During the first quarter of 2013, Convertible Notes in the principal and accrued interest amount of $1,226,042 were converted into 9,739,912 Common shares.

In December 2011, the Company terminated the original Purchase Agreement with Lincoln Park Capital Fund, LLC (“LPC”) and executed a new purchase agreement, or the New Purchase Agreement, and a registration rights agreement, or the New Registration Rights Agreement, with LPC. Under the New Purchase Agreement, LPC is obligated, under certain conditions, to purchase from the Company up to $8.5 million of our Common Stock, from time to time over a thirty-two (32) month period.

The Company has the right, but not the obligation, to direct LPC to purchase up to $8,500,000 of its Common Stock in amounts up to $50,000 as often as every two business days under certain conditions. The Company can also accelerate the amount of its common stock to be purchased under certain circumstances. No sales of shares may occur at a purchase price below $0.10 per share or without a registration statement having been declared effective. The purchase price of the shares will be based on the market prices of our shares at the time of sale as computed under the New Purchase Agreement without any fixed discount. The Company may at any time at its sole discretion terminate the New Purchase Agreement without fee, penalty or cost upon one business days’ notice.

There was no up-front commitment fee paid to LPC for entering into the new agreement. In the event the Company directs LPC to purchase up to $8,500,000 of its Common Stock, the Company is obligated to issue up to an additional 1,634,615 commitment fee shares of Common Stock on a pro rata basis. LPC may not assign any of its rights or obligations under the Purchase Agreement.

During the six months ended June 30, 2013 the Company received approximately $900,000 as proceeds from the sale of approximately 8,144,000 shares of Common Stock per the terms of the Purchase Agreement with LPC at an average price of approximately $0.113 per share of Common. Per the terms of the Purchase Agreement the Company also issued an additional approximately 173,000 shares of Common Stock as additional Commitment Fee shares. The fair value of the Commitment shares of approximately $20,000 has been recorded as a cost of raising capital.

As of June 30, 2013, $4,050,000 remained available under the Purchase Agreement with LPC. The Purchase Agreement terminates in August 2014.

5. COMMITMENTS AND CONTINGENCIES

Employment Agreements

The Company is currently in the process of renewing employment agreements with its Chief Executive Officer and its Chief Operating Officer.

On May 7, 2013, the Company entered into an employment agreement with Kathleen P. Bloch to become the Company’s Chief Financial Officer. Ms. Bloch’s employment agreement states that she will perform the services and duties that are normally and customarily associated with this position as well as other associated duties as our Board reasonably determines. The agreement commences on May 29, 2013 and expires on May 31, 2014 and calls for an initial base salary of $200,000 payable in equal semi-monthly installments in accordance with the Company’s usual practice. As a signing bonus, Ms. Bloch was also given a ten-year option to purchase 1,000,000 shares of the Company’s common stock. This option vests in equal installments over the next two years: 500,000 options at the 12 month anniversary, and 500,000 options at 24 month anniversary of the signing of this employment agreement, provided that Ms. Bloch remains a full-time employee of the Company.

Litigation

The Company is currently not involved, but may at times be involved in various claims and legal actions. Management is currently of the opinion that these claims and legal actions would have no merit, and any 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. For the six months ended June 30, 2013 the Company has recorded royalty costs of approximately $11,800.

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, the Company 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. For the six months ended June 30, 2013 per the terms of the license agreement the Company has recorded royalty costs of approximately $7,600.

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 CytoSorbents 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 June 30, 2013 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 six months ended June 30, 2013 and 2012 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 approximately 75,510,523 and 63,394,000 incremental shares at June 30, 2013 and 2012, respectively, as well as shares issuable upon conversion of Series A and Series B Preferred Stock representing approximately 210,634,000 and 190,824,000 incremental shares at June 30, 2013 and 2012, respectively, as well as potential shares issuable upon Note conversion into Common Stock representing approximately 8,784,000 and 14,530,000 incremental shares at June 30, 2013 and 2012, respectively, have been excluded from the computation of diluted loss per share as they are anti-dilutive.

7. SUBSEQUENT EVENTS

The Company has evaluated subsequent events occurring after the balance sheet date through the date of the issuance of this report.

From July 1, 2013 through August 12, 2013 the Company received approximately $700,000 as proceeds from the sale of 6,557,514 shares of Common Stock per the terms of the Purchase Agreement with LPC at an average price of $0.107 per share of Common. Per the terms of the Purchase Agreement the Company also issued an additional 134,610 shares of Common Stock as additional Commitment Fee shares.

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

The information contained in Item 2 contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Actual results may materially differ from those projected in the forward-looking statements as a result of certain risks and uncertainties set forth in this report. Although management believes that the assumptions made and expectations reflected in the forward-looking statements are reasonable, there is no assurance that the underlying assumptions will, in fact, prove to be correct or that actual results will not be different from expectations expressed in this report.

This filing contains a number of forward-looking statements which reflect management's current views and expectations with respect to our business, strategies, products, future results and events, and financial performance. All statements made in this filing other than statements of historical fact, including statements addressing operating performance, events, or developments which management expects or anticipates will or may occur in the future, including statements related to distributor channels, volume growth, revenues, profitability, new products, adequacy of funds from operations, statements expressing general optimism about future operating results, and non-historical information, are forward looking statements. In particular, the words "believe," "expect," "intend," "anticipate," "estimate," "m variations of such words, and similar expressions identify forward-looking statements, but are not the exclusive means of identifying such statements, and their absence does not mean that the statement is not forward-looking. These forward-looking statements are subject to certain risks and uncertainties, including those discussed below. Our actual results, performance or achievements could differ materially from historical results as well as those expressed in, anticipated, or implied by these forward-looking statements. We do not undertake any obligation to revise these forward-looking statements to reflect any future events or circumstances.

Readers should not place undue reliance on these forward-looking statements, which are based on management's current expectations and projections about future events, are not guarantees of future performance, are subject to risks, uncertainties and assumptions (including those described below), and apply only as of the date of this filing. Our actual results, performance or achievements could differ materially from the results expressed in, or implied by, these forward-looking statements. Factors which could cause or contribute to such differences include, but are not limited to, the risks to be discussed in our Annual Report on Form 10-K and in the press releases and other communications to shareholders issued by us from time to time which attempt to advise interested parties of the risks and factors which may affect our business. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

Overview

CytoSorbents Corporation (the "Company") is a development stage critical care focused company using blood purification to treat disease. The technology is based upon biocompatible, highly porous polymer sorbent beads that are capable of extracting unwanted substances from blood and other bodily fluids. The technology is protected by 32 issued U.S. patents with multiple applications pending.

In March 2011, we received E.U. regulatory approval under the CE Mark and Medical Devices Directive for our flagship product, CytoSorb®, as an extracorporeal cytokine filter indicated for use in clinical situations where cytokines are elevated. The goal of the CytoSorb® is to prevent or treat organ failure by reducing cytokine storm and the potentially deadly systemic inflammatory response syndrome in diseases such as sepsis, trauma, burn injury, acute respiratory distress syndrome, pancreatitis, liver failure, and many others. Organ failure is the leading cause of death in the intensive care unit, and remains a major unmet medical need, with little more than supportive care therapy (e.g. mechanical ventilation, dialysis, vasopressors, fluid support, etc.) as treatment options. By potentially preventing or treating organ failure, CytoSorb® may improve clinical outcome, including survival, while reducing the need for costly intensive care unit treatment, thereby potentially saving significant healthcare costs.

Our CE Mark enables CytoSorb® to be sold throughout the entire European Union. In addition, many countries outside the E.U. accept CE Mark approval for medical devices, but may also require registration with or without additional clinical studies. The broad approved indication enables CytoSorb® to be used "on-label" in diseases where cytokines are elevated including, but not limited to, critical illnesses such as those mentioned above, autoimmune disease flares, and many other conditions where cytokine-induced inflammation plays a detrimental role.

As part of the CE Mark approval process, we completed our randomized, controlled, European Sepsis Trial amongst fourteen trial sites in Germany in 2011, with enrollment of one hundred (100) patients with sepsis and respiratory failure. The trial established that CytoSorb® was safe in this critically-ill population, and that it was able to control cytokine storm,and broadly reduce key cytokines. In a post-hoc subgroup analysis, CytoSorb® was associated with a statistically significant reduction in mortality in patients at high risk of death in sepsis, specifically in patients with:

- Very high cytokine levels (IL-6 ≥ 1,000 pg/mL and/or IL-1ra ≥ 16,000 pg/mL) where 28-day mortality was 0% treated vs 63% control, p=0.03, n=14, and

- Age ≥ 65 (14-day mortality: 0% treated vs 36% control, p=0.04, n=21).

The Company plans to do larger, prospective studies in septic patients in the future to confirm the European Sepsis Trial findings.

In addition to CE Mark approval, CytoSorbents also achieved ISO 13485 Full Quality Systems certification, an internationally recognized quality standard designed to ensure that medical device manufacturers have the necessary comprehensive management systems in place to safely design, develop, manufacture and distribute medical devices in the European Union. CytoSorbents manufactures CytoSorb® at its manufacturing facilities in New Jersey for sale in the E.U. and for additional clinical studies. The Company also established a reimbursement path for CytoSorb® in Germany and Austria.

Plan of Operations

From September 2011 through June 2012, the Company began a controlled market release of CytoSorb® in select geographic territories in Germany with the primary goal of preparing for commercialization of CytoSorb in Germany in terms of manufacturing, reimbursement, logistics, infrastructure, marketing, contacts, and other key issues.

In late June 2012, following the establishment of our European subsidiary, CytoSorbents Europe GmbH, CytoSorbents began the commercial launch of CytoSorb® for the treatment of critical care illnesses such as sepsis, burn injury, trauma, acute respiratory distress syndrome, pancreatitis and other conditions where inflammation plays a detrimental role, such as cardiac surgery. We hired Dr. Christian Steiner as Vice President of Sales and Marketing and three additional sales representatives who joined the Company and completed their sales training in Q3 2012. Q4 2012 represented the first quarter of direct sales with the full sales team in place. During this period, we expanded our direct sales efforts to include both Austria and Switzerland and have established reimbursement in Austria. At the end of fiscal 2012, we had more than 60 key opinion leaders (KOLs) in critical care and blood purification who were either using CytoSorb® or committed to using CytoSorb® in the near future.

We seek to further complement our direct sales efforts with sales to distributors or corporate partners. In 2013, we reached an agreement with distributors in the United Kingdom and Turkey and we are in negotiation with and evaluating other potential distributor networks in other major countries where we are approved to market the device.

We are currently conducting a dose ranging trial in Germany amongst eight clinical trial sites to evaluate the safety and efficacy of CytoSorb® when used for longer periods of time. Data from this dosing study are intended to help clinicians with additional treatment options for CytoSorb®, help support the positive clinical data from the Company's first European Sepsis Trial, and help shape the trial protocol for a U.S. based pivotal study.

In the event we 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 510(k) or PMA registration. No assurance can be given that our CytoSorb® product will work as intended or that we will be able to obtain FDA approval to sell CytoSorb® in the United States.

The initial major market focus for CytoSorb® is the adjunctive treatment of sepsis, a systemic inflammatory response to a serious infection. CytoSorb® has been designed to prevent or reduce the accumulation of high concentrations of cytokines in the bloodstream associated with sepsis and is intended for short-term use with standard of care therapy that includes antibiotics. We believe that current state of the art blood purification technology (such as dialysis) is incapable of effectively clearing the toxins intended to be absorbed by our CytoSorb® device.

In addition to the sepsis indication, we intend to continue to foster research in other critical care illnesses where CytoSorb® could be used, such as ARDS, trauma, severe burn injury and acute pancreatitis, or in other acute conditions that have demonstrated potential in preliminary studies to prevent or reduce the accumulation of cytokines in the bloodstream. These other 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 our technology may have in removing drugs and other substances from blood and physiologic fluids.

The Company's proprietary hemocompatible porous polymer bead technology forms the basis of a broad technology portfolio. Some of our products include:

- CytoSorb® - an extracorporeal hemoperfusion cartridge approved in the E.U. for cytokine removal, with the goal of reducing SIRS and preventing or treating organ failure.

- HemoDefend™ – a development-stage blood purification technology designed to remove contaminants in blood transfusion products. The goal is to reduce transfusion reactions and improve the safety of older blood

- ContrastSorb – a development-stage extracorporeal hemoperfusion cartridge designed to remove IV contrast from the blood of high risk patients undergoing CT imaging with contrast, or interventional radiology procedures such as cardiac catheterization. The goal is to prevent contrast-induced nephropathy

- DrugSorb – a development-stage extracorporeal hemoperfusion cartridge designed to remove toxic chemicals from the blood (e.g. drug overdose, high dose regional chemotherapy, etc.)

- BetaSorb – a development-stage extracorporeal hemoperfusion cartridge designed to remove mid-molecular weight toxins, such as b2-microglobulin, that standard high-flux dialysis cannot remove effectively. The goal is to improve the efficacy of dialysis or hemofiltration

Because of the limited studies we have conducted, we are subject to substantial risk that our technology will have little or no effect on the treatment of any indications that we have targeted.

The Company has been successful in obtaining technology development contracts and support from agencies in the U.S. Department of Defense, including DARPA, the U.S. Army, and the U.S. Air Force.

In June 2013, we announced that the U.S. Air Force will fund a 30 patient, single site, randomized controlled human pilot study in the United States amongst trauma patients with rhabdomyolysis. The FDA has approved our Investigational Device Exemption (IDE) application for this study, which is anticipated to commence this year.

Following successful contract negotiations in June 2013, the Company began work on its previously announced $1 million Phase II SBIR U.S. Army contract to further develop its technology for the treatment of burn injury and trauma in animal models. This work is supported by the U.S. Army Medical Research and Material Command under an amendment to Contract W81XWH-12-C-0038 and has now received committed funding of $1.15 million to date.

In August 2012, the Company was awarded a $3.8 million contract by the Defense Advanced Research Projects Agency (DARPA) for its “Dialysis-Like Therapeutics” program to treat sepsis. This five-year contract is for advanced technology development of our hemocompatible porous polymer technologies to remove cytokines and a number of pathogen and biowarfare toxins from blood. CytoSorbents is one of several technology developers, including corporate and academic institutions such as Harvard University’s Wyss Institute, the Massachusetts Institute of Technology, University of Washington, and Aethlon Medical, and others that have been selected and funded by DARPA. CytoSorbents has begun work on Year 2 milestones and is currently working with the recently announced systems integrators, Battelle Laboratories, and its subcontractor, NxStage Medical, who are responsible for integrating the technology developed by CytoSorbents and others into a final medical device design prototype, and evaluating this device in septic animals and eventually in human clinical trials in sepsis. CytoSorbents’ work is supported by DARPA and SSC Pacific under Contract No. N66001-12-C-4199.

Results of Operations

Comparison for the six months ended June 30, 2013 and 2012:

Revenues:

For the six months ended June 30, 2013, the Company generated revenue of approximately $663,000 as compared to revenues of approximately $133,000, for the six months ended 2012, an increase of 497%. Revenue from product sales was approximately $304,000 in the first half of 2013, as compared to approximately $50,000 in the first half of 2012, an increase of 609%. This increase in sales is a result of the establishment in August 2012 of a four person direct sales force covering Germany, Austria and Switzerland, as well as sales to distributors in other parts of Europe and the Middle East. Product gross margins were approximately 60% for the six months ended June 30, 2013. Revenue from grants was approximately $359,000 in the first half of 2013, as compared to approximately $83,000 in the first half of 2012.

Expenses:

For the six months ended June 30, 2013, our research and development expenses were approximately $1,412,000 as compared to research and development expenses of approximately $1,392,000 for the six months ended June 30, 2012. The increase of approximately $20,000 in research and development expenses was primarily due to, increased option expenses of approximately $98,000 and increases in medical conference costs of approximately $29,000 offset by decreases in patent related costs of approximately $42,000 and decreases in clinical and research programs of approximately $58,000.

Legal, financial and other consulting expenses were approximately $413,000 for the six months ended June 30, 2013 as compared to approximately $235,000 for the six months ended June 30, 2012. The increase of approximately $179,000 was due to increased accounting fees related to government filings and temporary employment of approximately $98,000, legal fees associated with patent review related costs of approximately $26,000 and consulting fees related to new systems totaling approximately $58,000.

Selling, general, and administrative expenses were approximately $1,214,000 for the six months ended June 30, 2013 as compared to approximately $563,000 for the six months ending June 30, 2012. The increase in selling, general, and administrative expenses was primarily due to the addition of our German sales team in August 2012 of approximately $458,000, investment and public relations consulting fees of approximately $33,000, and increased option expenses of approximately $150,000.

For the six months ended June 30, 2013, our interest expense was approximately $215,000 as compared to interest expense of approximately $397,000 for the six months ended June 30, 2012. The decrease was principally due to the maturity of convertible notes in February 2013 and the related reduction in non-cash charges associated with the amortization of debt discount on the convertible notes.

We have experienced substantial operating losses since inception. As of June 30, 2013, we had a deficit accumulated during the development stage of approximately $102,979,000 which included losses of approximately $3,044,000 and $2,474,000 for the six month periods ended June 30, 2013 and 2012 respectively. Historically, our losses have resulted principally from costs incurred in the research and development of our polymer technology, clinical studies, and general and administrative expenses.

Comparison for the three months ended June 30, 2013 and 2012:

Revenues:

CytoSorbents generated revenues of approximately $291,000 and $83,000 for the three months ending June 30, 2013 and June 30, 2012, respectively. Product revenues were approximately $128,000 for the quarter ended June 30, 2013, as compared to product revenues of $33,000 for the three months ended June 30, 2012. This increase in product revenues was a result of our direct sales effort to hospitals in Germany, Austria and Switzerland with a four person sales force in place beginning in 2012, as well as sales to distributors in Turkey and the United Kingdom. Additionally, grant revenue and other income approximated $164,000 and $50,000 for the three month periods ended June 30, 2013 and 2012 respectively. Product gross margins were approximately 61.3% for the quarter ended June 30, 2013. Overall gross margins were approximately 31.5% for the quarter ended June 30, 2013, impacted by the high cost of materials and labor related to grant income.

Expenses:

For the three months ending June 30, 2013, our research and development costs were approximately $708,000, as compared to research and development costs of approximately $716,000, for the three months ended June 30, 2013. The decrease of approximately $8,000 or 1.1% was primarily due to net decreases in expenditures related to our completed sepsis study and clinical trial of approximately $22,000, patent costs of $21,000 and lab supplies of $55,000 that were partially offset by increases in insurance expenses of approximately $24,000, salaries of approximately $22,000 and production costs of approximately $49,000.

Legal, financial and other consulting costs were approximately $190,000 for the three months ending June 30, 2013 as compared to legal financial and other consulting costs of approximately $74,000 for the three months ended June 30, 2012. This increase of approximately $116,000 was primarily due to increased accounting fees related to government filings and temporary employment of approximately $70,000 and consulting fees related to new systems totaling approximately $46,000.

Our general and administrative costs were approximately $601,000 for the three months ended June 30, 2013 compared to approximately $293,000, an increase of approximately $308,000. This was primarily due to increases in costs related to commencing our European sales operations of approximately $230,000, investor and public relations consulting fees of approximately $33,000, and option expenses of approximately $37,000.

For the three months ending June 30, 2013, the Company's net interest expense was approximately $8,000, as compared to net interest expense of approximately $38,000 for the three months ended June 30, 2012. The decrease in net interest expense is primarily due to a reduction of approximately $38,000 in non-cash related charges associated with the amortization of debt discount, which is presented in the net interest expenses category of our Consolidated Statement of Operations.

Liquidity and Capital Resources

Since inception, our operations have been financed through the private placement of the Company's debt and equity securities. As of June 30, 2013, we had cash on hand of approximately $1,871,000 and current liabilities of approximately $2,104,000. At December 31, 2012, we had cash of approximately $1,729,000 and current liabilities of approximately $2,077,000.

We believe that we have sufficient cash to fund our operations into the fourth quarter of 2013, following which we will need additional funding to permit us to complete additional clinical studies and to continue to commercialize our products. We will need to rely on additional funding to support our operations into the future. We expect to receive such required funding from grant revenue, issuance of new debt and/or equity securities, and sales of our shares to Lincoln Park Capital Fund LLC ("LPC"). (See Note 9 to the Company's Annual Report on Form 10-K filed with the Commission on April 03, 2013).

Lincoln Park Capital Fund LLC Purchase Agreement

Under the terms of its Purchase Agreement with LPC, in the first six months of 2013, the Company sold approximately 8,144,000 shares of Common Stock to LPC at an average selling price of $0.113 and in return, the Company received proceeds of approximately $900,000. Per the terms of the Purchase Agreement the Company also issued an additional approximately 173,000 shares of Common Stock as additional Commitment Fee shares. As of June 30, 2013, under its current Purchase Agreement with LPC, the Company has the ability to sell up to an additional $4,050,000 of shares of Common Stock.

U.S. Army Medical Research Grant

In June 2013, the Company finalized contract negotiations of a $1 million Phase 2 SBIR award from the U.S. Army Medical Research and Materiel Command to fund the further development of the Company's technologies to treat trauma and burn injury. As of June 30, 2013, following payments to subcontractors, approximately $654,000 of the grant is available to CytoSorbents, subject to the achievement of certain milestones. The Company is exploring potential eligibility in several other government sponsored grant programs which could, if approved, represent a substantial source of non-dilutive funds for our research programs.

DARPA Funding

In addition, in the first six months of 2013, the Company received approximately $305,000 from the Defense Advanced Research Projects Agency (DARPA) following achievement of initial milestones of a five year technology development contract valued at $3.8 million that was awarded in August 2012. In addition, the Company is eligible, pending achievement of certain development milestones in this “Dialysis-Like Therapeutics” initiative to treat sepsis, to receive up to $1,480,000 (of the $3.8 million contract) in payments over the next twelve months.

Convertible Note and Warrant Private Offering

On June 21, 2013 (the “Closing Date”), the Company issued convertible notes to certain accredited investors (the “Purchasers”), whereby the Company agreed to sell and the Purchasers agreed to purchase the convertible notes in the aggregate principal amount of $1,098,000 (the “Notes”). The Notes mature one (1) year from the Closing Date (the “Maturity Date”), bear interest at an annual rate of 8%, and automatically convert into shares of the Company’s common stock, $0.001 par value per share (the “Common Stock”), at a conversion price of $0.125 at maturity or earlier at the option of the Purchaser. Full conversion of the principal value of the Notes would result in the issuance of 8,784,000 shares of Common Stock. In connection with the issuance of the Notes, the Company issued warrants to purchase shares of Common Stock, providing 50% coverage, exercisable at $0.15 per share (the “Warrants”).

The Notes do not contain anti-dilution provisions and the Company is not required to repay the Notes in cash. Additionally, there are no registration rights on the common stock underlying the Notes or Warrants.

We will also continue to seek other funding sources 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.

Off-balance Sheet Arrangements

We have no off-balance sheet arrangements.

Going Concern

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 June 30, 2013 of approximately $102,979,000. The Company is not currently generating significant revenue and is dependent on the proceeds of present and future financings to fund its research, development and commercialization program. These matters raise substantial doubt about the Company’s ability to continue as a going concern. 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. The consolidated financial statements do not include any adjustments related to the outcome of this uncertainty.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide the information under this item.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) and Rule 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended, as of June 30, 2013. Based on this evaluation, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures were ineffective at such time to ensure that information required to be disclosed by us in the reports filed or submitted under the Securities Exchange Act were recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Our principal executive officer and principal financial officer also concluded that our disclosure controls, which are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act is accumulated and communicated to management, was inappropriate to allow timely decisions regarding required disclosure.

Additionally, based on management's assessment, the Company determined that there were material weaknesses in its internal control over financial reporting as of June 30, 2013.

Therefore, our internal controls over financial reporting were not effective as of June 30, 2013 based on the material weaknesses described below:

(1) Lack of an independent audit committee or audit committee financial expert. Although our board of directors serves as the audit committee its membership includes some directors who are not independent. Further, we have not identified an audit committee financial expert on our board of directors. These factors are counter to corporate governance practices as defined by the various stock exchanges and may lead to less supervision over management.

(2) Need for greater integration, oversight, communication and financial reporting of the books and records of our German subsidiary.

Our management determined that these deficiencies constituted material weaknesses.

Due to our small size, we were not able to immediately remediate these actions, however, we have been begun to address these matters. On May 29, 2013, we hired Kathleen P. Bloch, CPA, MBA, as our Chief Financial Officer. The Company will take additional remedial action to address the remaining material weaknesses in the near future. Notwithstanding the assessment that our Internal Controls over Financial Reporting was not effective and that there were material weaknesses identified herein, we believe that our consolidated financial statements contained in this Quarterly Report fairly present our financial position, results of operations and cash flows for the periods covered thereby in all material respects.

Changes in Internal Controls over Financial Reporting

Except as disclosed below, there has been no change in our internal controls over financial reporting that occurred during the fiscal quarter covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

On May 29, 2013, we hired Kathleen P. Bloch, CPA, MBA, as our Chief Financial Officer. Ms. Bloch has more than 20 years of executive financial experience in both public and private companies. Most recently, she was Chief Financial Officer of Laureate Biopharmaceutical Services, Inc., a leader in biopharmaceutical contract development and manufacturing. Previously, Ms. Bloch was Chief Operating Officer and CFO of PC Group, Inc., a $70 million in revenue, NASDAQ-listed, publicly traded company with a diverse group of holdings, including several medical device subsidiaries. Prior to that, Ms. Bloch was CFO of Silver Line Building Products Corporation for seven years, helping it grow from $100 million in sales, into the world's largest manufacturer of vinyl windows with more than $750 million in revenue, employing over 7,000 people nationwide in 35 states with nine manufacturing facilities. In 2006, she oversaw the acquisition of Silver Line by Andersen Corporation, a leading international manufacturer of

windows. Previously, Ms. Bloch was CFO of ERD Waste Corporation, a NASDAQ-listed, publicly-traded environmental services provider, operating in 16 states with more than $60 million in sales. She began her career at Peat Marwick International, which became KPMG LLP, one of the big four accounting firms. Ms. Bloch holds a Master of Business Administration degree and a Bachelor of Science Accounting degree from LaSalle University, and is a Certified Public Accountant.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

We are not currently involved in any litigation that we believe could have a material adverse effect on our financial condition or results of operations. There is no action, suit, proceeding, inquiry or investigation before or by any court, public board, government agency, self-regulatory organization or body pending or, to the knowledge of the executive officers of our company or any of our subsidiaries, threatened against or affecting our company, our common stock, any of our subsidiaries or of our companies or our subsidiaries' officers or directors in their capacities as such, in which an adverse decision could have a material adverse effect.

Item 1A. Risk Factors

We believe there are no changes that constitute material changes from the risk factors previously disclosed in the Company's 2012 Annual Report filed on Form 10-K.

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

Effective as of April 4, 2013, the Company granted an aggregate amount of 4,320,000 stock options to the following officers/directors/employees in the corresponding amounts and exercisable date schedule below for services rendered or to be rendered:

Name	Amount	Exercise Price	Exercisable Date
Phillip Chan, CEO	1,650,000 stock options	$0.115	The options will become exercisable based on the achievement of certain milestones connected to the Company's operations, subject to approval by the Board of Directors.
Vincent Capponi, COO	1,550,000 stock options	$0.115	The options will become exercisable based on the achievement of certain milestones connected to the Company's operations, subject to approval by the Board of Directors.
Ronald Berger, Controller	370,000 stock options	$0.115	The options will become exercisable based on the achievement of certain milestones connected to the Company's operations, subject to approval by the Board of Directors.
Al Kraus, Chairman	300,000 stock options	$0.115	The options will become exercisable one year from the issuance date.
Joseph Rubin, Director	150,000 stock options	$0.115	The options will become exercisable one year from the issuance date.
Edward Jones, Director	150,000 stock options	$0.115	The options will become exercisable one year from the issuance date.
James Gunton/NJTC Venture Fund, Director	150,000 stock options	$0.115	The options will become exercisable one year from the issuance date.

On May 20, 2013, the Company issued 500,000 shares to a consultant for public relations consulting services rendered. The services were valued at $65,467.74.

Effective as of May 29, 2013, the Company granted Kathleen P. Bloch, the Company’s Chief Financial Officer, an aggregate amount of 1,500,000 stock options for services rendered or to be rendered based on the exercise price and exercisable date below:

Kathleen P. Bloch, CFO	1,500,000 stock	$0.116 for 1,000,000	1. 500,000 options exercisable on 05/29/2014 and 500,000 options exercisable on 05/29/2015; both options granted on 05/29/2013. 2. The

options	stock options $0.115 for 500,000 stock options	remaining 500,000 options will become exercisable based on the achievement of certain milestones connected to the Company's operations, subject to approval by the Board of Directors.

These securities were issued in a private offering exempt from registration pursuant to Section 4(2) under the Securities Act of 1933, as amended (the "Securities Act ").

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits.

Number	Description
31.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of Sarbanes Oxley Act of 2002.
31.2	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of Sarbanes Oxley Act of 2002.
32.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of Sarbanes Oxley Act of 2002.
32.2	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of Sarbanes Oxley Act of 2002.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Schedule

101.CAL* XBRL Taxonomy Calculation Linkbase
101.DEF* XBRL Taxonomy Definition Linkbase
101.LAB* XBRL Taxonomy Label Linkbase
101.PRE* XBRL Taxonomy Presentation Linkbase
In accordance with SEC Release 33-8238, Exhibit 32.1 and 32.2 are being furnished and not filed.

* Furnished herewith. XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

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.

CYTOSORBENTS CORPORATION

Dated: August 14, 2013 By: /s/ Phillip Chan
Name: Phillip Chan
Title: Chief Executive Officer
(Duly Authorized Officer and Principal Executive Officer)

Dated: August 14, 2013 By: /s/ Kathleen P. Bloch
Name: Kathleen P. Bloch, CPA
Title: Chief Financial Officer
(Duly Authorized Officer and Principal Financial and Accounting Officer)