

MedaSorb Technologies CORP
Form 10-Q
May 15, 2008

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, 2008

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

Accelerated filer

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

Smaller reporting company

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, 2008 there were 25,044,932 shares of the issuer's common stock outstanding.

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

TABLE OF CONTENTS

| | <u>Page</u> |
|--|-------------|
| PART I. FINANCIAL INFORMATION | |
| Item 1. Financial Statements (March 31, 2008 and 2007 are unaudited) | |
| Consolidated Balance Sheets | 3 |
| Consolidated Statements of Operations | 4 |
| Consolidated Statements of Changes in Stockholders' Equity (Deficit) | 5 |
| Consolidated Statements of Cash Flows | 6 |
| Notes to Consolidated Financial Statements | 8 |
| Item 2. Management's Discussion and Analysis or Plan of Operation | 13 |
| Item 4. Controls and Procedures | 14 |
| PART II. OTHER INFORMATION | |
| Item 1. Legal Proceedings | 15 |
| Item 6. Exhibits | 15 |

PART I -- FINANCIAL INFORMATION

Item 1. Financial Statements.

MEDASORB TECHNOLOGIES CORPORATION
(a development stage company)

CONSOLIDATED BALANCE SHEETS

| | March 31, 2008 (Unaudited) | December 31, 2007 |
|--|----------------------------------|----------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 46,768 | \$ 211,613 |
| Prepaid expenses and other current assets | 187,913 | 200,682 |
| Total current assets | 234,681 | 412,295 |
| Property and equipment - net | 122,687 | 144,457 |
| Other assets | 249,203 | 245,820 |
| Total long-term assets | 371,890 | 390,277 |
| Total Assets | \$ 606,571 | \$ 802,572 |
| LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT) | | |
| Current Liabilities: | | |
| Accounts payable | \$ 910,123 | \$ 775,342 |
| Accrued expenses and other current liabilities | 228,090 | 131,526 |
| Total current liabilities | 1,138,213 | 906,868 |
| Long term liabilities: | | |
| Notes payable - non-current | 100,000 | -- |
| Total long term liabilities | 100,000 | -- |
| Total liabilities | 1,238,213 | 906,868 |
| Stockholders' Equity (Deficit): | | |
| 10% Series A Preferred Stock, Par Value \$0.001, 100,000,000 shares authorized at March 31, 2008 and December 31, 2007, 8,219,995 and 8,019,508 shares issued and outstanding, respectively | 8,219 | 8,019 |
| Common Stock, Par Value \$0.001, 100,000,000 Shares authorized at March 31, 2008 and December | 25,045 | 25,045 |

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| | | | |
|---|--|-------------------|-------------------|
| 31, 2007, 25,044,932 shares issued and outstanding | | | |
| Additional paid-in capital | | 71,719,840 | 71,400,849 |
| Deficit accumulated during the development stage | | (72,384,746) | (71,538,209) |
| Total stockholders' equity (deficit) | | (631,642) | (104,296) |
| Total Liabilities and Stockholders' Equity (Deficit) | | \$ 606,571 | \$ 802,572 |

See accompanying notes to consolidated financial statements.

MEDASORB TECHNOLOGIES CORPORATION
(a development stage company)

CONSOLIDATED STATEMENTS OF
OPERATIONS

| | Period from January 22,1997 (date of inception) to March 31, 2008 (Unaudited) | Three months ended March 31, 2008 (Unaudited) | March 31, 2007 (Unaudited) |
|--|--|--|---|
| Revenue | \$ -- | \$ -- | \$ -- |
| Expenses: | | | |
| Research and development | 42,663,407 | 355,127 | 344,411 |
| Legal, financial and other consulting | 6,706,592 | 57,924 | 129,526 |
| General and administrative | 21,633,599 | 233,524 | 685,419 |
| Change in fair value of management and incentive units | (6,055,483) | -- | -- |
| Total expenses | 64,948,115 | 646,575 | 1,159,356 |
| Gain on disposal of property and equipment | (21,663) | -- | -- |
| Gain on extinguishment of debt | (216,617) | -- | -- |
| Interest expense (income), net | 5,576,521 | (525) | (30,849) |
| Penalties associated with non-registration of Series A Preferred Stock | 361,495 | -- | 320,023 |
| Net loss | (70,647,851) | (646,050) | (1,448,530) |
| Series A Preferred Stock Dividend | 1,736,895 | 200,487 | 185,087 |
| Net Loss available to common shareholders | \$ (72,384,746) | \$ (846,537) | \$ (1,633,617) |
| Basic and diluted net loss per common share | | \$ (0.03) | \$ (0.07) |
| Weighted average number of shares of common stock outstanding | | 25,044,932 | 24,628,274 |

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,
2007
to March 31,
2008

| | Common Stock | | Preferred Stock | | Additional | Deficit | Total |
|--|--------------|-----------|-----------------|-----------|-----------------|--|--------------------------------|
| | Shares | Par value | Shares | Par Value | Paid-In Capital | Accumulated During the Development Stage | Stockholders' Equity (Deficit) |
| Balance at December 31, 2007 | 25,044,932 | \$ 25,045 | 8,019,508 | \$ 8,019 | \$ 71,400,849 | \$ (71,538,209) | \$ (104,296) |
| Stock-based compensation - employees, consultants, and directors | -- | -- | -- | -- | 118,704 | -- | 118,704 |
| Issuance of Series A Preferred Stock as dividends | -- | -- | 200,487 | 200 | 200,287 | (200,487) | -- |
| Net loss | -- | -- | -- | -- | -- | (646,050) | (646,050) |
| Balance at March 31, 2008 (Unaudited) | 25,044,932 | \$ 25,045 | 8,219,995 | \$ 8,219 | \$ 71,719,840 | \$ (72,384,746) | \$ (631,642) |

See accompanying notes to consolidated financial statements.

MEDASORB TECHNOLOGIES CORPORATION
(a development stage company)

CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Period from January 22,1997 (date of inception) to March 31, 2008 (Unaudited) | Three months ended March 31, 2008 (Unaudited) | Three months Ended March 31, 2007 (Unaudited) |
|---|--|--|--|
| Cash flows from operating activities: | | | |
| Net loss | \$ (70,647,851) | \$ (646,050) | \$ (1,448,530) |
| 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 | 30,000 | -- | -- |
| Depreciation and amortization | 2,262,990 | 25,925 | 48,025 |
| Amortization of debt discount | 1,000,000 | -- | -- |
| Gain on disposal of property and equipment | (21,663) | -- | -- |
| Gain on extinguishment of debt | (216,617) | -- | -- |
| 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 | 478,409 | -- | -- |
| Expense for issuance of options | 1,008,636 | 118,704 | 457,085 |
| Amortization of deferred compensation | 74,938 | -- | -- |
| Penalties in connection with non-registration event | 361,496 | -- | -- |
| Changes in operating assets and liabilities: | | | |
| Prepaid expenses and other current assets | (459,461) | 12,769 | (8,455) |
| Other assets | (56,393) | (2,500) | -- |
| Accounts payable and accrued expenses | 2,957,424 | 231,345 | (19,445) |
| Accrued interest expense | 1,823,103 | -- | -- |
| Dividend/penalty payable | -- | -- | 320,023 |
| Net cash used by operating activities | (51,491,469) | (259,807) | (651,297) |
| Cash flows from investing activities: | | | |
| Proceeds from sale of property and equipment | 32,491 | -- | -- |
| Purchases of property and equipment | (2,221,851) | (1,330) | (21,428) |
| Patent costs | (409,386) | (3,708) | (10,758) |
| Loan receivable | (1,632,168) | -- | -- |
| Net cash used by investing activities | (4,230,914) | (5,038) | (32,186) |
| Cash flows from financing activities: | | | |

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| | | | |
|--|-------------------|----------------|-----------|
| Proceeds from issuance of common stock | 400,490 | -- | -- |
| Proceeds from issuance of preferred stock | 4,679,437 | -- | -- |
| Equity contributions - net of fees incurred | 41,711,198 | -- | -- |
| Proceeds from borrowings | 8,478,631 | 100,000 | -- |
| Proceeds from subscription receivables | 499,395 | -- | -- |
| Net cash provided by financing activities | 55,769,151 | 100,000 | -- |

See accompanying notes to consolidated financial statements.

| | | | |
|---|-----------|-----------|--------------|
| Net change in cash and cash equivalents | 46,768 | (164,845) | (683,483) |
| Cash and cash equivalents - beginning of period | -- | 211,613 | 2,873,138 |
| Cash and cash equivalents - end of period | \$ 46,768 | \$ 46,768 | \$ 2,189,655 |

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 | \$ 10,201,714 | \$ -- | \$ -- |
| 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 | \$ 620,563 | \$ -- | \$ -- |
| Series A Preferred Stock Dividends | \$ 1,736,895 | \$ 200,487 | \$ 185,087 |
| Net effect of conversion of common stock to preferred stock prior to merger | \$ 559 | \$ -- | \$ -- |

See accompanying notes to consolidated financial statements.

MedaSorb Technologies Corporation
Notes to Consolidated Financial Statements
(UNAUDITED)
March 31, 2008

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 MedaSorb Technologies, Inc., its wholly-owned 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, 2008. 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, 2008 and the results of its operations and cash flows for the three month periods ended March 31, 2008 and 2007, and for the period January 22, 1997 (date of inception) to March 31, 2008. 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, 2007 as included in the Company's Form 10-KSB filed with the Commission on April 15, 2008.

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, 2008 of \$72,384,746. 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, 2008, 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, MedaSorb Technologies, 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.

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 (NOL) generated prior to the June 30, 2006 reverse merger may be limited due to the change in ownership. In addition, the Company was a limited liability company through December 31, 2005. Consequently, all losses generated prior to December 31, 2005 are not available for utilization as an NOL for the Company.

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 a 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 and considers the Company's risk negligible.

Financial Instruments

The carrying values of accounts payable and other debt obligations approximated 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

Effective January 1, 2008, the Company has adopted the provisions of SFAS No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the United States, and expands disclosures about fair value measurements. Any amounts recognized upon adoption as a cumulative effect adjustment will be recorded to the opening balance of retained earnings in the year of adoption. The provisions of SFAS 157 did not have a significant impact on the Company's statements of operations or financial position.

Effective January 1, 2008, the Company has adopted the provisions of SFAS No. 159, "Establishing the Fair Value Option for Financial Assets and Liabilities" to permit all entities to choose to elect to measure eligible financial instruments and certain other items at fair value. The decision whether to elect the fair value option may occur for each eligible items either on a specified election date or according to a preexisting policy for specified types of eligible items. However, that decision must also take place on a date on which criteria under SFAS 159 occurs. Finally, the decision to elect the fair value option shall be made on an instrument-by-instrument basis, except in certain circumstances. An entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. The provisions of SFAS 159 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 \$100,000, with due dates ranging from August 2009 to September 2009, which bear interest at the rate of 10% per annum. Should the Company complete any financing which includes any equity component or provides for a right to convert into equity, and if the entire principal of the Note remains outstanding, holders of the Promissory Notes shall have the option to convert, on an all-or-none basis, the entire principal and outstanding interest of their Notes into the securities issued in such financing under the same terms, conditions and pricing of said financing (including warrant coverage, if any). 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) the price equal to the purchase price per share of common stock issued (or issuable) in the Company's next round of equity financing. Such warrants will have an exercise price equal to the purchase price per share of common stock issued (or issuable) in the Company's next round of equity financing and provide for weighted average anti-dilution price protection.

4. STOCKHOLDERS' EQUITY (DEFICIT)

During the three months ended March 31, 2008 the Company recorded non-cash stock dividends totaling \$200,487 in connection with the issuance of 200,487 shares of Series A Preferred Stock as a stock dividend to its preferred shareholders as of March 31, 2008. The Company has estimated the value of the shares issued as stock dividends to be \$1 per share. This valuation is based upon the last completed transaction involving the underlying preferred shares which occurred in 2006.

During the three months ended March 31, 2008, the Company issued stock options to employees, consultants and directors resulting in aggregate compensation expense of \$118,704, \$55,428 and \$63,276 of which is presented in

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research and development expenses and general and administrative expenses, respectively.

The summary of the stock option activity for the three months ended March 31, 2008 is as follows:

| | Shares | Weighted Average Exercise per Share | Weighted Average Remaining Life (Years) |
|------------------------------|-----------|--|--|
| Outstanding, January 1, 2008 | 2,098,502 | \$ 9.41 | 7.7 |
| Granted | 3,014,000 | \$ 0.25 | 10.0 |
| Cancelled | -- | \$ -- | -- |
| Exercised | -- | -- | -- |
| Outstanding March 31, 2008 | 5,112,502 | \$ 4.01 | 8.1 |

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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 (\$0.25 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 24 percent), expected dividends (-0-percent) on the stock and the risk free interest rate (approximately 4 percent) for the term of the stock option.

At March 31, 2008, the aggregate intrinsic value of options outstanding and currently exercisable amounted to approximately \$0.

The summary of the status of the Company's non-vested options for the three months ended March 31, 2008 is as follows:

| | Shares | Weighted Average Grant Date Fair Value |
|-----------------------------|-----------|---|
| Non-vested, January 1, 2008 | 173,330 | \$.80 |
| Granted | 3,014,000 | \$.11 |
| Cancelled | -- | -- |
| Vested | 1,134,999 | \$.15 |
| Exercised | -- | -- |
| Non-vested, March 31, 2008 | 2,052,331 | \$.15 |

As of March 31, 2008, approximately \$352,987 of total unrecognized compensation cost related to stock options is expected to be recognized over a weighted average period of 1.27 years.

As of March 31, 2008, the Company has the following warrants to purchase common stock outstanding:

| Number of Shares | Warrant Exercise Price | Warrant Expiration Date |
|---------------------|------------------------------|-------------------------------|
| To be Purchased | per Share | |
| 15,569 | \$ 6.64 | March 31, 2010 |
| 816,691 | \$ 4.98 | June 30, 2011 |
| 2,100,000 | \$ 2.00 | June 30, 2011 |
| 339,954 | \$ 2.00 | September 30, 2011 |
| 52,080 | \$ 2.00 | July 31, 2011 |
| 400,000 | \$ 2.00 | October 31, 2011 |
| 240,125 | \$ 2.00 | October 24, 2016 |

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As of March 31, 2008, the Company has the following warrants to purchase preferred stock outstanding:

| Number of Shares to be Purchased | Warrant Exercise Price per Preferred Share | Warrant Expiration Date |
|--|---|-------------------------------|
| 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 \$2.00 per share.

5. COMMITMENTS AND CONTINGENCIES

Pending Litigation

In February 2008, Alkermes, Inc. commenced an action against the Company in the United States District Court for the District of Massachusetts, alleging that the Company's use of the name MedaSorb infringes on Alkermes' registered trademark "MEDISORB." In the action, Alkermes seeks an injunction against the Company's further use of the name MedaSorb. The Company is currently in settlement discussions with Alkermes and expects to resolve the matter shortly, although no assurance can be made in that regard.

Employment Agreements

The Company has employment agreements with certain key executives through December 2008. The agreements provide for annual base salaries of varying amounts.

One of these agreements includes an anti-dilution provision whereby the employee is granted options for the right to obtain 5% of the outstanding stock of the Company on a fully diluted basis.

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, 2008. 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, 2008. 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.

6. NET LOSS PER SHARE

Basic loss per share and diluted loss per share for the three months ended March 31, 2008 and 2007 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 9,076,921 and 5,928,072 incremental shares at March 31, 2008 and 2007, respectively, as well as shares issuable upon conversion of Series A Preferred Stock and Preferred Stock Warrants representing 7,205,996 and 6,659,263 incremental shares at March 31, 2008 and 2007, respectively, have been excluded from the computation of diluted loss per share as they are anti-dilutive.

7. SUBSEQUENT EVENTS

In April and May of 2008, the Company issued 18-month Promissory Notes in the aggregate principal amount of \$50,000, which bear interest at the rate of 10% per annum. Should the Company complete any financing which includes any equity component or provides for a right to convert into equity, these Notes will automatically be converted into the securities issued in such financing under the same terms, conditions and pricing of said financing. 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) 100% of the principal amount of the Promissory Note being converted, by (y) the price equal to the purchase price per share of common stock issued (or issuable) in the Company's next round of equity financing. Such warrants will have an exercise price equal to the purchase price per share of common stock issued (or issuable) in the Company's next round of equity financing and provide for weighted average anti-dilution price protection.

Item 2. Management's Discussion and Analysis or Plan of Operation.

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, 2007 as included in the Company's Form 10-KSB filed with the Securities and Exchange Commission (the "Commission") on April 15, 2008.

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-KSB filed with the Commission on April 15, 2008.

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, which we believe will provide a relatively faster regulatory pathway to market. 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 concentrations 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 CytoSorb™, the first device we intend to bring to market. 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 have targeted Europe for the initial market introduction of 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. The clinical study allows for enrollment of up to 80 patients with acute respiratory distress syndrome or acute lung injury in the setting of sepsis. We have recently made arrangements with several hospitals in Berlin to conduct the clinical studies, and those hospitals are now open for patient enrollment.

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, \$355,127 and \$344,411, for the three months ended March 31, 2008 and 2007 respectively. We have experienced substantial operating losses since inception. As of March 31, 2008, we had an accumulated deficit of \$72,384,746 which included losses from operations of \$646,050 for the three month period ended March 31, 2008. In comparison, we had losses from operations of \$1,448,530 for the three month period ended March 31, 2007. 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 \$588,651 and \$1,029,830 for the three month periods ended March 31, 2008 and 2007, respectively.

Liquidity and Capital Resources

Since inception, our operations have been financed through the private placement of our debt and equity securities. At December 31, 2007 we had cash of \$211,613. As of March 31, 2008 we had cash on hand of \$46,768, and current liabilities of \$1,138,213. Due to the lack of available funds, we have not paid certain of our senior executives since February 2008. We currently require additional financing to proceed with clinical studies and the attempted commercialization of our proposed products. Although we continue to discuss funding alternatives with potential institutional investors, our recent efforts to obtain additional financing have been unsuccessful, and 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.

Due to our losses and lack of available cash, our audited consolidated financial statements for the year ended December 31, 2007 have been 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 4. Controls and Procedures.

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, 2008, 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.

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, 2008 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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 seeks an injunction against our further use of the name MedaSorb. We are currently in settlement discussions with Alkermes and expect to resolve the matter shortly, although no assurance can be made in that regard.

PART II. OTHER INFORMATION**Item 6. Exhibits.**

| Number | Description |
|--------|--|
| 31.1 | Certification of Al Kraus, 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 | Certification of Al Kraus, 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 |

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 15, 2008

By: /s/ David Lamadrid

Name: David Lamadrid
Title: Chief Financial Officer
*(On behalf of the registrant and as
principal accounting officer)*

EXHIBIT INDEX

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