

MedaSorb Technologies CORP  
Form 10QSB  
August 14, 2007

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

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**FORM 10-QSB**

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

For the quarterly period ended June 30, 2007

or

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

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

Commission file number: 000-51038

MedaSorb Technologies Corporation

(Exact Name of Small Business Issuer 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  
(Issuer's Telephone Number, Including Area Code)

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 shell company (as defined in Rule 12b-2 of the Exchange Act).  Yes  No

As of August 14, 2007 there were 25,044,932 shares of the issuer's common stock outstanding.

Transitional Small Business Disclosure Format:  Yes  No



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

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**PART I — FINANCIAL INFORMATION****Item 1. Financial Statements.****MEDASORB TECHNOLOGIES CORPORATION**  
**(a development stage company)****CONSOLIDATED BALANCE SHEETS**

|  | <b>June 30,<br/>2007<br/>(Unaudited)</b> | <b>December 31,<br/>2006</b> |
|--|--|------------------------------|
| <b>ASSETS</b>  |  |                              |
| Current Assets:  |  |                              |
| Cash and cash equivalents  | \$ 1,465,919                             | \$ 2,873,138                 |
| Prepaid expenses and other current assets  | 69,376                                   | 24,880                       |
| <b>Total current assets</b>  | <b>1,535,295</b>                         | <b>2,898,018</b>             |
| Property and equipment - net   | 233,064                                  | 303,560                      |
| Other assets   | 251,129                                  | 243,471                      |
| <b>Total long-term assets</b>  | <b>484,193</b>                           | <b>547,031</b>               |
| <b>Total Assets</b>  | <b>\$ 2,019,488</b>                      | <b>\$ 3,445,049</b>          |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |  |                              |
| Current Liabilities:   |  |                              |
| Accounts payable   | \$ 807,650                               | \$ 942,265                   |
| Accrued expenses and other current liabilities   | 90,698                                   | 69,779                       |
| Accrued interest   | —  | 70,000                       |
| Dividends/penalties payable  | 632,762                                  | —                            |
| <b>Total current liabilities</b>   | <b>1,531,110</b>                         | <b>1,082,044</b>             |
| Stockholders Equity:   |  |                              |
| 10% Series A Preferred Stock, Par Value \$0.001, 100,000,000 shares authorized at June 30, 2007 and December 31, 2006, 7,427,452 and 7,403,585 shares issued and outstanding, respectively   | 7,427                                    | 7,403                        |
| Common Stock, Par Value \$0.001, 100,000,000 and 100,000,000 Shares authorized at June 30, 2007 and December 31, 2006, 24,765,775 and 24,628,274 shares issued and outstanding, respectively | 24,766                                   | 24,629                       |
| Additional paid-in capital   | 70,418,849                               | 69,757,556                   |
| Deficit accumulated during the development stage   | (69,962,664)                             | (67,426,583)                 |
| <b>Total stockholders' equity</b>  | <b>488,378</b>                           | <b>2,363,005</b>             |

|   |    |           |    |           |
|---|----|-----------|----|-----------|
| <b>Total Liabilities and Stockholders' Equity</b> | \$ | 2,019,488 | \$ | 3,445,049 |
|---|----|-----------|----|-----------|

See accompanying notes to consolidated financial statements.

**MEDASORB TECHNOLOGIES CORPORATION**  
(a development stage company)

**CONSOLIDATED STATEMENTS OF OPERATIONS**

|  | <b>Period from<br/>January 22, 1997<br/>(date of<br/>inception) to<br/>June 30, 2007<br/>(Unaudited)</b> | <b>Six months ended June 30,<br/>2007<br/>(Unaudited)</b> | <b>June 30,<br/>2006<br/>(Unaudited)</b> | <b>Three months ended June 30,<br/>2007<br/>(Unaudited)</b> | <b>June 30,<br/>2006<br/>(Unaudited)</b> |
|--|--|---|--|---|--|
| Revenue  | \$ —   | \$ —  | \$ —                                     | \$ —  | \$ —                                     |
| <b>Expenses:</b>   |  |   |  |   |  |
| Research and development   | 41,535,562   | 642,791   | 488,194                                  | 298,380   | 199,213                                  |
| Legal, financial and other consulting                                  | 6,520,617  | 261,104   | 603,003                                  | 131,578   | 218,465                                  |
| General and administrative   | 21,011,478   | 873,369   | 301,543                                  | 187,950   | 163,768                                  |
| Change in fair value of management and incentive units                 | (6,055,483)  | —   | —  | —   | —  |
| Total expenses   | 63,012,174   | 1,777,264   | 1,392,740                                | 617,908   | 581,446                                  |
| Gain on disposal of property and equipment                             | (21,663)   | —   | —  | —   | —  |
| Gain on extinguishment of debt   | (212,922)  | (6,314)   | —  | (6,314)   | —  |
| Interest expense (income), net   | 5,595,410  | (48,998)  | 4,813,171                                | (18,149)  | 4,609,088                                |
| Penalties associated with non-registration of Series A Preferred Stock | 440,631  | 440,631   | —  | 120,608   | —  |
| Net loss   | (68,813,630)   | (2,162,583)   | (6,205,911)                              | (714,053)   | (5,190,534)                              |
| Series A Preferred Stock Dividend                                      | 956,903  | 181,367   | —  | 48,373  | —  |
| Series A Preferred Cash Dividend                                       | 192,131  | 192,131   | —  | 140,038   | —  |
| Net Loss available to common shareholders                              | \$ (69,962,664)  | \$ (2,536,081)  | \$ (6,205,911)                           | \$ (902,464)  | \$ (5,190,534)                           |
| Basic and diluted net loss per common share                            | \$ (0.10)  | \$ (1.20)   | \$ (0.04)                                | \$ (0.96)   | \$ (0.96)                                |
| Weighted average number of shares of common stock outstanding          |  | 24,663,094  | 5,188,416                                | 24,697,913  | 5,380,281                                |

See accompanying notes to consolidated financial statements.



**MEDASORB TECHNOLOGIES CORPORATION**  
(a development stage company)

**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**

Period from December 31,  
2006 to June 30, 2007

|  | Common Stock<br>Shares | Par<br>value | Preferred Stock<br>Shares | Par<br>Value | Additional<br>Paid-In<br>Capital | Deficit<br>Accumulated<br>During the<br>Development<br>Stage | Total<br>Stockholders'<br>Equity |
|--|------------------------|--------------|---------------------------|--------------|----------------------------------|--|----------------------------------|
| <b>Balance at December 31, 2006</b>                                | 24,628,274             | \$ 24,629    | 7,403,585                 | \$ 7,403     | \$ 69,757,556                    | \$ (67,426,583)  | \$ 2,363,005                     |
| Issuance of stock options to employees, consultants, and directors | —                      | —            | —                         | —            | 457,085                          | —  | 457,085                          |
| Non-cash stock dividend on 10% Series A Preferred Stock            | —                      | —            | 181,367                   | 181          | 181,186                          | (181,367)  | —                                |
| Cash dividend on 10% Series A Preferred Stock                      | —                      | —            | —                         | —            | —                                | (192,131)  | (192,131)                        |
| Issuance of common stock in exchange for accounts payable          | 11,501                 | 11           | —                         | —            | 22,991                           | —  | 23,002                           |
| Conversion of preferred stock into common stock                    | 126,000                | 126          | (157,500)                 | (157)        | 31                               | —  | —                                |
| Net loss   | —                      | —            | —                         | —            | —                                | (2,162,583)  | (2,162,583)                      |
| <b>Balance at June 30, 2007 (Unaudited)</b>                        | 24,765,775             | \$ 24,766    | 7,427,452                 | \$ 7,427     | \$ 70,418,849                    | \$ (69,962,664)  | \$ 488,378                       |

See accompanying notes to consolidated financial statements.



**MEDASORB TECHNOLOGIES CORPORATION**  
(a development stage company)

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

|   | Period from<br>January 22,1997<br>(date of inception) to<br>June 30, 2007<br>(Unaudited) | Six months<br>ended<br>June 30, 2007<br>(Unaudited) | Six months<br>Ended<br>June 30, 2006<br>(Unaudited) |
|---|--|---|---|
| <b>Cash flows from operating activities:</b>  |  |   |   |
| Net loss  | \$ (68,813,630)  | \$ (2,162,583)                                      | \$ (6,205,911)                                      |
| <b>Adjustments to reconcile net loss to net cash used in operating activities:</b>          |  |   |   |
| Common stock issued as inducement to convert convertible notes payable and accrued interest | 3,351,961  | —   | 3,351,961   |
| Issuance of common stock to consultant for services   | 30,000   | —   | —   |
| Depreciation and amortization   | 2,143,149  | 96,524  | 127,762   |
| Amortization of debt discount   | 1,000,000  | —   | 1,000,000   |
| Gain on disposal of property and equipment  | (21,663)   | —   | —   |
| Gain on extinguishment of debt  | (212,921)  | (6,313)   | —   |
| Abandoned patents   | 183,556  | —   | 1,347   |
| 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   | 848,062  | 457,085   | 46,919  |
| Amortization of deferred compensation   | 74,938   | —   | —   |
| <b>Changes in operating assets and liabilities:</b>   |  |   |   |
| Prepaid expenses and other current assets   | (340,924)  | (44,496)  | (90,687)  |
| Other assets  | (53,893)   | —   | —   |
| Accounts payable and accrued expenses   | 2,713,863  | (84,381)  | 419,749   |
| Accrued interest expense  | 1,823,103  | (70,000)  | 473,310   |
| Dividends/penalty payable   | 440,631  | 440,631   | —   |
| <b>Net cash used by operating activities</b>  | <b>(49,977,356)</b>  | <b>(1,373,533)</b>                                  | <b>(875,550)</b>                                    |
| <b>Cash flows from investing activities:</b>  |  |   |   |
| Proceeds from sale of property and equipment  | 32,491   | —   | —   |
| Purchases of property and equipment   | (2,220,522)  | (21,428)  | —   |
| Patent costs  | (405,677)  | (12,258)  | (3,000)   |
| Loan receivable   | (1,632,168)  | —   | —   |
| <b>Net cash used by investing activities</b>  | <b>(4,225,876)</b>   | <b>(33,686)</b>                                     | <b>(3,000)</b>                                      |
| <b>Cash flows from financing activities:</b>  |  |   |   |
| Proceeds from issuance of common stock  | 400,490  | —   | 400,490   |
| Proceeds from issuance of preferred stock   | 4,679,437  | —   | 4,629,437   |

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|  |                   |          |                  |
|--|-------------------|----------|------------------|
| Equity contributions - net of fees incurred      | 41,711,198        | —        | —                |
| Proceeds from borrowings                         | 8,378,631         | —        | —                |
| Proceeds from subscription receivables           | 499,395           | —        | —                |
| <b>Net cash provided by financing activities</b> | <b>55,669,151</b> | <b>—</b> | <b>5,029,927</b> |

See accompanying notes to consolidated financial statements.

|   |              |              |              |
|---|--------------|--------------|--------------|
| Net increase in cash and cash equivalents       | 1,465,919    | (1,407,219)  | 4,151,377    |
| Cash and cash equivalents - beginning of period | —            | 2,873,138    | 707,256      |
| Cash and cash equivalents - end of period       | \$ 1,465,919 | \$ 1,465,919 | \$ 4,858,633 |

**Supplemental disclosure of cash flow information:**

|  |            |           |      |
|--|------------|-----------|------|
| Cash paid during the period for interest | \$ 581,780 | \$ 70,000 | \$ — |
|--|------------|-----------|------|

**Supplemental schedule of noncash investing and financing activities:**

|   |               |            |              |
|---|---------------|------------|--------------|
| Note payable principal and interest conversion to equity  | \$ 10,201,714 | \$ —       | \$ 8,030,149 |
| 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  | \$ 23,002  | \$ —         |
| Issuance of common stock in exchange for stock subscribed   | \$ 399,395    | \$ —       | \$ 399,395   |
| Costs paid from proceeds in conjunction with issuance preferred stock   | \$ 620,563    | \$ —       | \$ 620,563   |
| Preferred Stock Dividends   | \$ 1,061,089  | \$ 285,553 | \$ —         |
| Issuance of 10,000,000 shares of common stock in consideration for funding \$1,000,000 convertible note payable | \$ 1,000,000  | \$ —       | \$ 1,000,000 |

See accompanying notes to consolidated financial statements.

**MedaSorb Technologies Corporation**  
**Notes to Consolidated Financial Statements**  
**(UNAUDITED)**  
**June 30, 2007**

**1. BASIS OF PRESENTATION**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the requirements of Form 10-QSB and Item 310 of Regulation S-B 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, 2007. 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, 2007 and the results of its operations and cash flows for the six and three month periods ended June 30, 2007 and 2006, and for the period January 22, 1997 (date of inception) to June 30, 2007. 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, 2006 as included in the Company's Form 10-KSB filed with the Commission on March 30, 2007.

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, 2007 of \$69,962,664. 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 21 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 June 30, 2007, 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.

### **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.

**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.

### **Effects of Recent Accounting Pronouncements**

The Company has adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109" ("FIN 48"), on January 1, 2007. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement 109 "Accounting for Income Taxes", and prescribes a recognition threshold and measurement process for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition classification, interest and penalties accounting in interim periods disclosure and transition.

Based on our evaluation, we have concluded that there are no significant uncertain tax positions requiring recognition in our financial statements or adjustments to our deferred tax assets and related valuation allowance. Our evaluation was performed for the tax years ended December 31, 2003, 2004, 2005 and 2006, the tax years which remain subject to examination by major tax jurisdictions as of June 30, 2007.

The Company may from time to time be assessed interest or penalties by major tax jurisdictions, although such assessments historically have been minimal and immaterial to our financial results. In the event we have received an assessment for interest and/or penalties, it has been classified in the financial statements as general and administrative expense.

In September 2006 the FASB issued 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. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, with earlier application encouraged. 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 Company has not yet determined the impact of this statement on its results of operations or financial condition.

In February 2007, the FASB issued 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. SFAS No. 159 applies to fiscal years beginning after November 15, 2007, with early adoption permitted for an entity that has also elected to apply the provisions of SFAS No. 157. The Company is currently evaluating this pronouncement in connection with SFAS No. 157.

### **3. STOCKHOLDERS' EQUITY**

During the six months ended June 30, 2007 the Company recorded a non-cash stock dividend of \$181,367 in connection with the issuance of 181,367 shares of Series A Preferred Stock as a stock dividend payable as well as a cash dividend payable of \$192,131 to its preferred shareholders as of June 30, 2007. Effective February 26, 2007 due to the Company's failure to have the registration statement it filed declared effective by the Commission within the time required under agreements with the June 30, 2006 purchasers of the Series A Preferred Stock (i) dividends on the shares of Series A Preferred Stock issued to those purchasers were required to be paid in cash, (ii) the dividend rate has increased from 10% per annum to 20% per annum, and (iii) were entitled to liquidating damages of 2% of their principal investment payable in cash per 30 day period until the registration statement was declared effective. In connection with such cash dividend and penalty obligations, the Company's financial statements for the six month



period ending June 30, 2007 reflects an aggregate charge of \$440,631 for the incremental cash dividends and penalties payable to the June 30, 2006 purchasers of the Series A Preferred Stock. On May 7, 2007 the Company's registration statement filed in connection with the Company's obligations to the June 30, 2006 purchasers of its Series A Preferred Stock was declared effective by the Commission. Pursuant to a settlement agreement signed in August 2007, the dividend rate and the payment terms reverted back to the original agreement and the 2% liquidating damage penalties ceased to accrue as of May 7, 2007. (See Note 6 "Subsequent Events").

During the six months ended June 30, 2007, 157,500 shares of Series A Preferred Stock were converted into 126,000 shares of Common Stock at a rate of \$1.25 as stipulated in the preferred stock agreements. The conversions had no effect on the statement of operations for the six months ended June 30, 2007.

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During the six months ended June 30, 2007, the Company issued stock options to employees, consultants and directors resulting in a compensation expense of approximately \$457,000, approximately \$6,000 and \$451,000 of which is presented in research and development expenses and general and administrative expenses, respectively.

During the six months ended June 30, 2007, the Company issued 11,501 shares of common stock to settle accounts payable in the amount of \$23,002. The settlement had no effect on the statements of operations for the six months ended June 30, 2007.

The summary of the stock option activity for the six months ended June 30, 2007 is as follows:

|                              | Shares    | Weighted<br>Average<br>Exercise<br>per Share | Weighted<br>Average<br>Remaining<br>Life (Years) |
|------------------------------|-----------|--|--|
| Outstanding, January 1, 2007 | 1,185,001 | \$ 15.66                                     | 7.0  |
| Granted                      | 776,000   | \$ 1.50                                      | 9.6  |
| Cancelled                    | —         | —  | —  |
| Exercised                    | —         | —  | —  |
| Outstanding June 30, 2007    | 1,961,001 | \$ 10.06                                     | 8.0  |

At June 30, 2007, 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 six months ended June 30, 2007 is as follows:

|                             | Shares  | Weighted<br>Average<br>Grant Date<br>Fair Value |
|-----------------------------|---------|---|
| Non-vested, January 1, 2007 | 79,665  | \$ .77  |
| Granted                     | 776,000 | \$ .73  |
| Cancelled                   | —       | —   |
| Vested                      | 664,668 | \$ .69  |
| Exercised                   | —       | —   |
| Non-vested, June 30, 2007   | 190,997 | \$ .87  |

As of June 30, 2007, approximately \$167,500 of total unrecognized compensation cost related to stock options is expected to be recognized over a weighted average period of 5.5 years.

As of June 30, 2007, the Company has the following warrants to purchase common stock outstanding:

| Number of Shares<br>To be Purchased | Warrant<br>Exercise<br>Price per Share | Warrant<br>Expiration Date |
|-------------------------------------|--|----------------------------|
| 15,569                              | \$ 6.64                                | March 31,<br>2010          |
| 816,691                             | \$ 4.98                                | June 30, 2011              |

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|           |    |      |                       |
|-----------|----|------|-----------------------|
| 2,100,000 | \$ | 2.00 | June 30, 2011         |
| 339,954   | \$ | 2.00 | September 30,<br>2011 |
| 52,080    | \$ | 2.00 | July 31, 2011         |
| 400,000   | \$ | 2.00 | October 31,<br>2011   |
| 240,125   | \$ | 2.00 | October 24,<br>2016   |

As of June 30, 2007, the Company has the following warrants to purchase preferred stock outstanding:

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

#### 4. COMMITMENTS AND CONTINGENCIES

##### Pending Litigation

The Company may at times, become involved in various claims and legal actions. At the date of this filing the Company was not involved in any legal claims expected to have a material adverse impact on the consolidated financial position of the Company and/or the results of its operations.

##### Employment Agreements

The Company has employment agreements with certain key executives through July 2008. One of these agreements provides for an additional bonus payment based on achieving specific milestones as defined in the agreement, however, as of the date of this report, these milestones have not been met. Furthermore, this agreement includes an anti-dilution provision whereby the employee is granted options for the right to maintain 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 June 30, 2007. 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 June 30, 2007. 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.

#### 5. NET LOSS PER SHARE

Basic earnings per share and diluted earnings per share (EPS) for the six months ended June 30, 2007 and 2006 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 5,925,420, and 3,822,648 incremental shares at June 30, 2007 and 2006, respectively, as well as shares issuable upon conversion of Series A Preferred Stock and Preferred Stock Warrants representing 6,571,962 and 4,830,000 incremental shares at June 30, 2007 and 2006 respectively, have been excluded from the computation of diluted EPS as they are anti-dilutive.

## 6. SUBSEQUENT EVENTS

In July 2007, 348,946 shares of Series A Preferred Stock were converted into 279,157 shares of Common Stock.

In August 2007, the Company executed a settlement agreement with the June 30, 2006 purchasers of the Series A Preferred Stock. These purchasers had been entitled to receive cash dividends and penalties as a result of the Company's failure to have the registration statement it filed declared effective by the Commission within the time required under agreements with those purchasers (see Note 3 "Stockholders' Equity"). Pursuant to the settlement agreement, cash dividends stopped accruing on the Series A Preferred Stock effective on the date the Company's registration statement was declared effective (May 7, 2007) and all cash dividends and penalties due through that date are being paid with additional shares of Series A Preferred Stock at its stated value of \$1.00 per share in lieu of cash. Additionally, as part of the settlement, the dividend rate on the Series A Preferred Stock issued to these purchasers was reset to 10% effective as of May 7, 2007.

In August 2007, the Company received approval from the German Ethics Committee to proceed with a clinical trial in Germany using the CytoSorb™ device in the adjunctive treatment of sepsis.

### **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, 2006 as included in the Company's Form 10-KSB filed with the Securities and Exchange Commission (the "Commission") on March 30, 2007.

#### **Forward-looking statements**

*Statements contained in this Quarterly Report on Form 10-QSB, 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; the outcome of pending and potential litigation; 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 March 30, 2007.*

#### **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 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.

We intend to initially focus 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 systemic inflammatory response syndrome.

CytoSorb™ has been designed to prevent or reduce the accumulation of high concentrations of cytokines in the bloodstream associated with sepsis. 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 situations such as patient overdoses.

In the first quarter of 2007, the Company received approval from the FDA to conduct a limited study of five patients in the adjunctive treatment of sepsis. The Company had also been pursuing approval to conduct clinical trials in Europe with the ultimate goal being to attain a CE Mark for its CytoSorb™ device. In August of 2007, the German Ethics Committee approved MedaSorb's application to proceed with a clinical trial enrolling up to 75 patients with acute respiratory distress syndrome or acute lung injury in the setting of sepsis. The Company estimates that the market potential in Europe for its products are substantially equivalent to that in the U.S. Given the opportunity to conduct a much larger clinical study in Europe, and the Company's belief that the path to a CE Mark should be faster than that of an FDA approval, MedaSorb intends to launch its next clinical study in Germany. The Company will, however, continue to work with the FDA and keep the FDA informed of its progress with its European clinical trial. The clinical protocol has been designed to support future U.S. studies after the Company receives the CE Mark and successfully commercializes its products in the European market. 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, \$642,791 and \$488,194 for the six months ended June 30, 2007 and 2006, respectively, and \$298,380 and \$199,213, for the three months ended June 30, 2007 and 2006 respectively. We have experienced substantial operating losses since inception. As of June 30, 2007, we had an accumulated deficit of \$69,962,664 which included losses from operations of \$714,053 and \$2,162,583, respectively, for the three and six month periods ended June 30, 2007. In comparison, we had losses from operations of \$5,190,534 and \$6,205,911, respectively, for the three and six month periods ended June 30, 2006. 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 \$486,330 and \$1,516,160, respectively, for the three and six month periods ended June 30, 2007.

Our net loss available to common shareholders for the three and six months ended June 30, 2007 includes \$260,646 and \$632,762, respectively, for cash dividends and penalties payable to the June 30, 2006 purchasers of our Series A Preferred Stock. The cash dividends and penalties are payable as a result of our failure to have the registration statement we filed on behalf of these purchasers declared effective by the Commission by February 26, 2007. As a result, from that date through May 7, 2007 (the date deemed effective by the SEC), (i) cash dividends on the shares of Series A Preferred Stock issued to those purchasers accrued at the rate of 20% per annum, and (ii) penalties of \$105,000 per 30-day period accrued to those purchasers. The registration statement was declared effective by the Commission on May 7, 2007.

In August 2007, the Company executed a settlement agreement with the June 30, 2006 purchasers of the Series A Preferred Stock. These purchasers had been entitled to receive cash dividends at a rate of 20% per annum and cash penalties as described above. Pursuant to the settlement agreement, cash dividends stopped accruing on the Series A Preferred Stock effective on the date the registration statement was declared effective (May 7, 2007) and all cash dividends and penalties due through that date are being paid with additional shares of Series A Preferred Stock at its stated value of \$1.00 per share in lieu of cash. Additionally, as part of the settlement, the dividend rate on the Series A Preferred Stock issued to these purchasers was reset to 10% effective as of May 7, 2007.

### Liquidity and Capital Resources

Since inception, our operations have been financed through the private placement of our debt and equity securities. At December 31, 2006 we had cash of \$2,873,138. Due to our losses and limited amounts of available cash, our audited consolidated financial statements for the year ended December 31, 2006 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.



As of June 30, 2007 we had cash on hand of \$1,465,919, and current liabilities of \$1,531,110. We believe that we have sufficient cash to fund our operation through the fourth quarter of 2007, following which we will need additional financing before we can complete clinical studies and the commercialization of our proposed products. There can be no assurance that we will be successful in our capital raising efforts.

Our current liabilities at June 30, 2007 include \$632,762 of dividends and liquidated damages payable to the June 30, 2006 purchasers of our Series A Preferred Stock as described above.

**Item 3. 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 June 30, 2007, 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 June 30, 2007 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **PART II. OTHER INFORMATION**

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

In May 2007, three of the June 30, 2006 institutional purchasers of our Series A Preferred Stock converted an aggregate of 157,500 shares of such stock into 126,000 shares of our Common Stock. The issuance of such shares of Common Stock was exempt from registration pursuant to Sections 4(2) and 3(a)(9), and Regulation D, under the Securities Act.

In May 2007, we issued 11,501 shares of Common Stock to a creditor of ours in satisfaction of a trade payable in the amount of \$23,002. Such issuance was exempt from registration pursuant to Sections 4(2) and Regulation D under the Securities Act.

### **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.

Date: August 14, 2007

**MEDASORB TECHNOLOGIES CORPORATION**

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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