Cytosorbents Corp
Form 10-Q
May 15, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2013

or

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

For the transition period from _____ to _____

Commission file number: 000-51038

CYTOSORBENTS CORPORATION

(Exact name of registrant as specified in its charter)

Nevada	**98-0373793**

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

7 Deer Park Drive, Suite K

Monmouth Junction, New Jersey 08852

(Address of principal executive offices) (Zip Code)

(732) 329-8885

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes þ No ¨

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

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

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

As of May 15, 2013 there were 229,878,821 shares of the issuer's common stock outstanding.

CytoSorbents Corporation

(a development stage company)

FORM 10-Q

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements.

CYTOSORBENTS CORPORATION

(a development stage company)

CONSOLIDATED BALANCE SHEETS

	March 31, 2013 (Unaudited)	December 31, 2012
ASSETS		
Current Assets:		
Cash and cash equivalents	$1,365,295	$1,729,344
Accounts receivable, net of allowance for doubtful accounts at $-0-	114,604	51,779
Inventories	555,260	682,372
Prepaid expenses and other current assets	94,242	476,093
Total current assets	2,129,401	2,939,588
Property and equipment – net	139,756	145,600
Other assets	257,547	254,220
Total long-term assets	397,303	399,820
Total Assets	$2,526,704	$3,339,408
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$704,710	$800,670
Accrued expenses and other current liabilities	288,724	349,841
Convertible notes payable, net of debt discount in the amount of $-0- at March 31, 2013 and $178,775 at December 31, 2012	—	926,225

Total current liabilities	993,434	2,076,736
Total liabilities	993,434	2,076,736
Redeemable Series B Convertible Preferred Stock, par Value $0.001, 200,000 shares Authorized at March 31, 2013 and December 31, 2012, respectively, 73,875.09 and 72,073.26 issued and outstanding , respectively	13,470,176	12,887,817
Stockholders' Equity (Deficit):		
10% Series A Convertible Preferred Stock, Par Value $0.001, 12,000,000 shares authorized at March 31, 2013 and December 31, 2012, respectively; 1,634,015 and 1,594,164 shares issued and outstanding, respectively	1,634	1,594
Common Stock, Par Value $0.001, 800,000,000 shares authorized at March 31, 2013 and 500,000,000 shares authorized at December 31, 2012, 228,948,386 and 214,967,503 shares issued and outstanding, respectively	228,949	214,968
Additional paid-in capital	88,795,394	86,903,415
Deficit accumulated during the development stage	(100,947,819)	(98,732,460)
Accumulated other comprehensive income	(15,064)	(12,662)
Total stockholders' equity	(11,936,906)	(11,625,145)
Total Liabilities and Stockholders' Equity	$2,526,704	$3,339,408

See accompanying notes to consolidated financial statements.

CYTOSORBENTS CORPORATION

(a development stage company)

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

	Period from January 22,1997 (date of inception) to March 31, 2013 (Unaudited)	Three months ended March 31, 2013 (Unaudited)	Three months ended March 31, 2012 (Unaudited)
Revenue:			
Sales	$ 363,750	$ 176,098	$ 16,893
Grant and Other Income	2,387,039	195,232	33,333
Total Revenue	2,750,789	371,330	50,226
Cost of revenue	1,087,382	253,511	53,840
Gross profit/(loss)	1,663,407	117,819	(3,614)
Other Expenses:			
Research and development	54,633,600	704,141	632,854
Legal, financial and other consulting	8,807,881	222,746	161,292
General and administrative	27,024,373	613,162	269,466
Change in fair value of management and incentive units	(6,055,483)		
Total expenses	84,410,371	1,540,049	1,063,612
Loss from operations	(82,746,964)	(1,422,230)	(1,067,226)
Other (income) expenses:			
Gain on disposal of property and equipment	(21,663)	--	--
Gain on extinguishment of debt	(216,617)	--	--
Interest (income) expense, net	7,508,262	206,712	359,370
Penalties associated with non-registration of Series A Preferred Stock	361,495	--	--
Total other (income) expense, net	7,631,477	206,712	359,370

Loss before benefit from income taxes	(90,378,441)	(1,628,942)	(1,426,596)
Benefit from income taxes	(939,074)	--	--
Net loss	(89,439,367)	(1,628,942)	(1,426,596)
Preferred stock dividend	11,508,452	586,417	663,917
Net loss available to common shareholders	$ (100,947,819)	$ (2,215,359)	$ (2,090,513)
Basic and diluted net loss per common share		$ (0.01)	$ (0.01)
Weighted average number of shares of common stock outstanding		222,968,576	181,150,646
Net Loss	$ (89,439,367)	$ (1,628,942)	$ (1,426,596)
Other comprehensive loss:			
Currency translation adjustment	(15,064)	(2,402)	
Comprehensive loss	$ (89,454,431)	$ (1,631,344)	$ (1,426,596)

See accompanying notes to consolidated financial statements.

CYTOSORBENTS CORPORATION

(a development stage company)

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

Period from

December 31, 2012 to

March 31, 2013

(Unaudited)

	Series B Redeemable Convertible Preferred Stock		Common Stock		Preferred Stock A		Paid-In	Accumulated Other Comprehensive	Deficit Accumu Develop
	Shares	Amount	Shares	Par value	Shares	Par Value	Capital	Income	Stage
Balance at December 31, 2012	72,073.26	$12,887,817	214,967,503	$214,968	1,594,164	$1,594	$86,903,415	$(12,662)	$(98,73
Stock based compensation - employees, consultants and directors							225,900		
Issuance of Series A Preferred Stock as dividends					39,851	40	4,018		(4,058
Issuance of Series B Preferred Stock	1,801.83	582,359							(582,3

as dividends									
Issuance of common stock for cash			4,240,970	4,241			445,759		
Conversion of convertible notes to common			9,739,912	9,740			1,216,302		
Other comprehensive income/(loss): foreign translation adjustment								(2,402)	
Net loss									(1,628
Balance at March 31, 2013	73,875.09	$13,470,176	228,948,385	$228,949	1,634,015	$1,634	$88,795,394	$(15,064)	$(100,9

See accompanying notes to consolidated financial statements.

CYTOSORBENTS CORPORATION

(a development stage company)

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Period from January 22, 1997 (date of inception) to March 31, 2013	Three months Ended March 31, 2013	Three months ended March 31, 2012
	(Unaudited)	(Unaudited)	(Unaudited)
Cash flows from operating activities:			
Net loss	$(89,439,367)	$(1,628,942)	$(1,426,596)
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	2,518,166	14,145	10,707
Amortization of debt discount	2,644,504	178,775	344,450
Gain on disposal of property and equipment	(21,663)	—	—
Gain on extinguishment of debt	(216,617)	—	—
Interest expense paid with Series B Preferred Stock in connection with conversion of notes payable	3,147	—	—
Abandoned patents	183,556	—	—
Bad debts - employee advances	255,882	—	—
Contributed technology expense	4,550,000	—	—
Consulting expense	237,836	—	—
Management unit expense	1,334,285	—	—
Expense for issuance of warrants	533,648	—	—
Expense for issuance of options	2,794,088	225,900	532
Amortization of deferred compensation	74,938	—	—
Penalties in connection with non-registration event	361,496	—	—
Changes in operating assets and liabilities:			
Accounts receivable	(114,604)	(62,825)	(3,712)
Inventories	(555,260)	127,112	(37,541)
Prepaid expenses and other current assets	(365,790)	381,851	(3,340)

Other assets	(56,395)	(9,442)	—
Accounts payable and accrued expenses	3,069,769	(36,035)	43,175
Accrued interest expense	1,823,103	—	—
Net cash used by operating activities	(67,003,317)	(809,461)	(1,072,325)
Cash flows from investing activities:			
Proceeds from sale of property and equipment	32,491	—	—
Purchases of property and equipment	(2,422,996)	(2,186)	—
Patent costs	(498,514)	—	(11,280)
Purchases of short-term investments	(393,607)	—	—
Proceeds from sale of short-term investments	393,607	—	—
Loan receivable	(1,632,168)	—	—
Net cash used by investing activities	(4,521,187)	(2,186)	(11,280)
Cash flows from financing activities:			
Proceeds from issuance of common stock	400,490	—	—
Proceeds from issuance of preferred stock	9,579,040	—	—
Equity contributions - net of fees incurred	50,521,311	450,000	1,000,001
Proceeds from borrowings	11,888,881	—	700,000
Proceeds from subscription receivables	499,395	—	—
Proceeds from exercise of stock options	15,746	—	—
Net cash provided by financing activities	72,904,863	450,000	1,700,001
Effect of exchange rates on cash	(15,064)	(2,402)	—
Net change in cash and cash equivalents	1,365,295	(364,049)	616,396
Cash and cash equivalents - beginning of period	—	1,729,344	1,186,653
Cash and cash equivalents - end of period	$1,365,295	$1,365,295	$1,803,049

See accompanying notes to consolidated financial statements.

Supplemental disclosure of cash flow information:			
Cash paid during the period for interest	$590,189	$—	$—
Supplemental schedule of noncash investing and financing activities:			
Debt discount in connection with issuance of convertible debt	$1,644,505	$—	$87,700
Fair value of shares issued as costs of raising capital	$593,899	$10,413	$188,274
Note payable principal and interest conversion to equity	$13,175,491	$1,226,042	$395,154
Issuance of member units for leasehold improvements	$141,635	$—	$—
Issuance of management units in settlement of cost of raising capital	$437,206	$—	$—
Change in fair value of management units for cost of raising capital	$278,087	$—	$—
Exchange of loan receivable for member units	$1,632,168	$—	$—
Issuance of equity in settlement of accounts payable	$1,614,446	$—	$—
Issuance of common stock in exchange for stock subscribed	$399,395	$—	$—
Costs paid from proceeds in conjunction with issuance preferred stock	$768,063	$—	$—
Preferred stock dividends	$11,508,452	$586,417	$663,917
Net effect of conversion of common stock to preferred stock prior to merger	$559	$—	$—

During the three months ended March 31, 2013 and 2012, -0- and 131.56 Series B Preferred Shares were converted into -0- and 363,425 Common shares, respectively. During the three months ended March 31, 2013 and 2012, -0- and -0- Series A Preferred Shares were converted into -0- and -0- Common shares, respectively. For the period from January 22, 1997 (date of inception) to March 31, 2013, 22,576.18 Series B Preferred Shares and 9,558,112 Series A Preferred Shares were converted into 62,364,597 and 43,728,457 Common Shares, respectively.

See accompanying notes to consolidated financial statements.

CytoSorbents Corporation

Notes to Consolidated Financial Statements

(UNAUDITED)

March 31, 2013

1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the requirements of Form 10-Q of the Securities and Exchange Commission (the "Commission") and include the results of CytoSorbents Corporation (the "Parent"), CytoSorbents, Inc., its wholly-owned operating subsidiary (the "Subsidiary"), and CytoSorbents Europe GmbH, its wholly-owned European subsidiary (the "European Subsidiary"), collectively referred to as "the Company." Accordingly, certain information and footnote disclosures required in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. Interim statements are subject to possible adjustments in connection with the annual audit of the Company's accounts for the year ended December 31, 2013. In the opinion of the Company's management, the accompanying unaudited consolidated financial statements contain all adjustments (consisting only of normal recurring adjustments) which the Company considers necessary for the fair presentation of the Company's consolidated financial position as of March 31, 2013 and the results of its operations and cash flows for the three month periods ended March 31, 2013 and 2012, and for the period January 22, 1997 (date of inception) to March 31, 2013. 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, 2012 as included in the Company's Form 10-K filed with the Commission on April 03, 2013.

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. The Company has experienced negative cash flows from operations since inception and has a deficit accumulated during the development stage at March 31, 2013 of $100,947,819. The Company is not currently generating significant revenue and is dependent on the proceeds of present and future financings to fund its research, development and commercialization program. These matters raise substantial doubt about the Company's ability to continue as a going concern. The Company is continuing its fund-raising efforts. Although the Company has historically been successful in raising additional capital through equity and debt financings, there can be no assurance that the Company will be successful in raising additional capital in the future or that it will be on favorable terms. We believe that we have sufficient cash to fund our operations into the third quarter of 2013, following which we will need additional funding before we can complete additional clinical studies and commercialize our products. Furthermore, if the Company is successful in raising the additional financing, there can be no assurance that the amount will be sufficient to complete the Company's plans. These consolidated financial statements do not include any adjustments related to the outcome of this uncertainty.

The Company is a development stage company and has not yet generated significant revenues from inception to March 31, 2013. Since inception, the Company's expenses relate primarily to research and development, organizational activities, clinical manufacturing, regulatory compliance, sales and operational strategic planning. Although the Company has made advances on these matters, there can be no assurance that the Company will continue to be successful regarding these issues, nor can there be any assurance that the Company will successfully implement its long-term strategic plans.

The Company has developed an intellectual property portfolio, including 32 issued U.S. patents, and multiple pending patents, covering materials, methods of production, systems incorporating the technology and multiple medical uses.

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

Nature of Business

The Company, through its subsidiary CytoSorbents, Inc., is engaged in the research, development and commercialization of medical devices with its platform blood purification technology incorporating a proprietary adsorbent polymer technology. The Company, through its European Subsidiary, has commenced initial sales and marketing related operations for the CytoSorb® device in the European Union. The Company is focused on developing this technology for multiple applications in the medical field, specifically to provide improved blood purification for the treatment of acute and chronic health complications associated with blood toxicity. In March 2011, the Company received CE Mark approval for its CytoSorb® device, and in June 2012, officially launched CytoSorb® for commercial sale in Germany and later in Austria and Switzerland with a small direct sales force. As of March 31, 2013, the Company had only limited commercial operations and, accordingly, is in the development stage. The Company has yet to generate any significant revenue and has no assurance of future revenue.

Principles of Consolidation

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

Development Stage Corporation

The accompanying consolidated financial statements have been prepared in accordance with the provisions of accounting and reporting by development stage enterprises.

Cash and Cash Equivalents

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

Accounts Receivable

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

Inventories

Inventories are valued at the lower of cost or market. At March 31, 2013 and December 31, 2012 the Company's inventory was comprised of finished goods, which amounted to $402,001 and $438,790, respectively, work in process which amounted to $110,400 and $194,880, respectively and raw materials, which amounted to $42,859 and $48,702, respectively.

Property and Equipment

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

Patents

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

Impairment or Disposal of Long-Lived Assets

The Company assesses the impairment of patents and other long-lived assets under accounting standards for the impairment or disposal of long-lived assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. For long-lived assets to be held and used, the Company recognizes an impairment loss only if its carrying amount is not recoverable through its undiscounted cash flows and measures the impairment loss based on the difference between the carrying amount and fair value.

Revenue Recognition

The Company recognizes revenue when it is earned. Delivery of the goods generally completes the criteria for revenue recognition.

Grant Revenue

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

Research and Development

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

Income Taxes

Income taxes are accounted for under the asset and liability method prescribed by accounting standards for accounting for income taxes. Deferred income taxes are recorded for temporary differences between financial statement carrying amounts and the tax basis of assets and liabilities. Deferred tax assets and liabilities reflect the tax rates expected to be in effect for the years in which the differences are expected to reverse. A valuation allowance is provided if it is more likely than not that some or all of the deferred tax asset will not be realized. Under Section 382 of the Internal Revenue Code the net operating losses generated prior to the reverse merger may be limited due to the change in ownership. Additionally, net operating losses generated subsequent to the reverse merger may be limited in the event of changes in ownership.

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities. Actual results could differ from these estimates. Significant estimates in these financials are the valuation of options granted, the valuation of preferred shares issued as stock dividends and valuation methods used in determining any debt discount associated with convertible securities.

Concentration of Credit Risk

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

Financial Instruments

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

Net Loss Per Common Share

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

Stock-Based Compensation

The Company accounts for its stock-based compensation under the recognition requirements of accounting standards for accounting for stock-based compensation, for employees and directors whereby each option granted is valued at fair market value on the date of grant. Under these accounting standards, the fair value of each option is estimated on the date of grant using the Black-Scholes option pricing model.

The Company also follows the guidance of accounting standards for accounting for equity instruments that are issued to other than employees for acquiring, or in conjunction with selling, goods or services for equity instruments issued to consultants.

Effects of Recent Accounting Pronouncements

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

Shipping and Handling Costs

The Company records shipping and handling costs in Research and Development. Total freight costs amounted to approximately $10,000 and $23,000 for the three months ended March 31, 2013 and March 31, 2012 respectively.

Reclassifications

Certain items for the periods ended March 31, 2013 and 2012 have been reclassified to conform to the presentation at March 31, 2013. There was no change in net income as a result of these reclassifications.

3. CONVERTIBLE NOTES

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

4. STOCKHOLDERS' EQUITY (DEFICIT)

During the three months ended March 31, 2013, the Company recorded non-cash stock dividends totaling $586,417 in connection with the issuance of 1,801.83 shares of Series B Preferred Stock and 39,851 shares of Series A Preferred Stock as a stock dividend to its preferred shareholders as of March 31, 2013.

During the three months ended March 31, 2013, the Company incurred stock-based compensation expense due to the issuance of stock options, and amortization of unvested stock options. The aggregate expense for the three months ended March 31, 2013 is approximately $225,900.

The summary of the stock option activity for the three months ended March 31, 2013 is as follows:

	Shares	Weighted Average Exercise Price per Share	Weighted Average Remaining Life (Years)
Outstanding, January 1, 2013	36,667,616	$ 0.23	6.1
Granted	1,930,000	$ 0.11	7.8
Cancelled	(9,402)	$ 2.01	—
Exercised	—	$ —	—
Outstanding March 31, 2013	38,588,214	$ 0.23	5.9

The fair value of each stock option was estimated using the Black Scholes pricing model which takes into account as of the grant date the exercise price (ranging from $0.106 to $0.168 per share) and expected life of the stock option (ranging from 5-10 years), the current price of the underlying stock and its expected volatility (approximately 28 percent), expected dividends (-0- percent) on the stock and the risk free interest rate (0.8 to 1.9 percent) for the term of the stock option.

At March 31, 2013, the aggregate intrinsic value of options outstanding and currently exercisable amounted to approximately $1,130,000.

The summary of the status of the Company’s non-vested options for the three months ended March 31, 2013 is as follows:

	Shares	Weighted Average Grant Date Fair Value
Non-vested, January 1, 2013	7,394,000	$ 0.05
Granted	1,930,000	$ 0.05
Cancelled	—	—
Vested	(5,451,000)	$ 0.05
Non-vested, March 31, 2013	3,873,000	$ 0.05

As of March 31, 2013, approximately $115,000 of total unrecognized compensation cost related to stock options is expected to be recognized over a weighted average period of 2.14 years. Due to the uncertainty over whether approximately 1,050,000 options granted during the year ended December 31, 2010 will vest based on performance milestones in the Company’s long term incentive plan, no charge for these options has been recorded in the consolidated statements of operations for the three months ended March 31, 2013. The grant date fair value of these unvested options amounts to approximately $50,400. The Company will evaluate on an ongoing basis the probability and likelihood of any of these performance milestones being achieved and will accrue charges as it becomes likely that they will be achieved.

As of March 31, 2013, the Company has the following warrants to purchase common stock outstanding:

Warrant

Number of Shares To be Purchased	Warrant Exercise Price per Share	Expiration Date
3,986,429	$ 0.04	June 25, 2013
397,825	$ 0.04	September 30, 2014
1,750,000	$ 0.10	August 16, 2015
1,600,000	$ 0.13	August 16, 2015
1,333,333	$ 0.15	August 16, 2015
490,000	$ 0.10	October 22, 2015
196,000	$ 0.13	October 22, 2015
163,333	$ 0.15	October 22, 2015
625,000	$ 0.10	November 2, 2015
250,000	$ 0.13	November 2, 2015
208,334	$ 0.15	November 2, 2015
500,000	$ 0.10	November 19, 2015
200,000	$ 0.13	November 19, 2015
166,667	$ 0.15	November 19, 2015
240,125	$ 1.25	October 24, 2016
5,000,000	$ 0.10	February 15, 2016
2,200,000	$ 0.13	February 15, 2016
1,833,333	$ 0.15	February 15, 2016
1,166,667	$ 0.18	February 10, 2017
22,307,046		

During the three months ended March 31, 2013 Convertible Notes in the principal and accrued interest amount of $1,226,042 were converted into 9,739,912 Common shares.

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

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

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

During the three months ended March 31, 2013 the Company received approximately $450,000 as proceeds from the sale of 4,154,435 shares of Common Stock per the terms of the Purchase Agreement with LPC at an average price of approximately $0.108 per share of Common. Per the terms of the Purchase Agreement the Company also issued an additional 86,535 shares of Common Stock as additional Commitment Fee shares. The fair value of the Commitment shares of approximately $10,000 has been recorded as a cost of raising capital.

As of March 31, 2013 $4,550,000 remained available under the Purchase Agreement with LPC. The Purchase Agreement terminates in August 2014.

5. COMMITMENTS AND CONTINGENCIES

Employment Agreements

The Company is currently in the process of renewing employment agreements with certain key executives.

Litigation

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

Royalty Agreements

Pursuant to an agreement dated August 11, 2003, an existing investor agreed to make a $4 million equity investment in the Company. These amounts were received by the Company in 2003. In connection with this agreement, the Company granted the investor a future royalty of 3% on all gross revenues received by the Company from the sale of its CytoSorb® device. For the three months ended March 31, 2013 the Company has accrued royalty costs of approximately $5,000.

License Agreements

In an agreement dated September 1, 2006, the Company entered into a license agreement which provides the Company the exclusive right to use its patented technology and proprietary know how relating to adsorbent polymers for a period of 18 years. Under the terms of the agreement, the Company has agreed to pay royalties of 2.5% to 5% on the sale of certain of its products if and when those products are sold commercially for a term not greater than 18 years commencing with the first sale of such product. For the three months ended March 31, 2013 per the terms of the license agreement the Company has accrued royalty costs of approximately $5,000.

Warrant Agreement

As inducement to invest additional funds in the private placement of Series B Preferred Stock, additional consideration was granted to the participants of the Series B Preferred Stock offering in the event that litigation is commenced against CytoSorbents prior to June 30, 2018, claiming patent infringement on certain of the Company's issued patents. In the event this litigation arises the Company may be required to issue warrants to purchase in the aggregate up to a maximum of ten million shares of Common Stock subject to certain adjustments. Through March 31, 2013 no such litigation has arisen and due to the deemed low probability of this potential outcome; the Company has not booked a contingent liability for this agreement.

6. NET LOSS PER SHARE

Basic loss per share and diluted loss per share for the three months ended March 31, 2013 and 2012 have been computed by dividing the net loss for each respective period by the weighted average number of shares outstanding during that period. All outstanding warrants and options representing approximately 60,895,000 and 62,994,000 incremental shares at March 31, 2013 and 2012, respectively, as well as shares issuable upon conversion of Series A and Series B Preferred Stock representing approximately 205,496,000 and 186,225,000 incremental shares at March 31, 2013 and 2012, respectively, as well as potential shares issuable upon Note conversion into Common Stock representing approximately -0- and 12,197,000 incremental shares at March 31, 2013 and 2012, respectively, have been excluded from the computation of diluted loss per share as they are anti-dilutive.

7. SUBSEQUENT EVENTS

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

During April and May, the Company received approximately $100,000 as proceeds from the sale of 911,205 shares of Common Stock per the terms of the Purchase Agreement with LPC at an average price of $0.11 per share of Common. Per the terms of the Purchase Agreement the Company also issued an additional 19,230 shares of Common Stock as additional Commitment Fee shares.

On April 3, 2013, the BOD approved a 2013 Stock Option Grant totaling 10,305,000 options, available in part to all eligible employees of the Company, that vests only with the achievement of certain pre-determined milestones relating to commercialization of CytoSorb®, financing, strategic partnerships, and product development. In addition, a pool of 22,750,000 shares of restricted stock was allocated, but not awarded, to only awarded with the achievement of certain long-term milestones. Should these long-term milestones not be met in 2013, these restricted shares would be cancelled.

On April 11, 2013, the Company announced the award of an additional Phase I SBIR option, valued at $50,000 over 2 months, related to its previously announced Phase I and Phase II award to develop its technologies for the treatment of burn injury and trauma, from the U.S. Army Medical Research and Materiel Command.

On April 15, 2013, the Company announced the hiring of Christopher Cramer, MS, MBA as Vice President of Business Development. Mr. Cramer brings more than 15 years of business development and commercial experience

in the medical device field. Most recently, Mr. Cramer was Senior Director of Venture Development at Johnson & Johnson, a manufacturer and multi-national distributor of pharmaceutical, medical devices and consumer products with over $67 billion in annual worldwide sales.

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

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

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

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

Overview

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

applications pending.

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

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

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

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

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

Plan of Operations

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

In addition to CE Mark approval, CytoSorbents also achieved ISO 13485:2003 Full Quality Systems certification, an internationally recognized quality standard designed to ensure that medical device manufacturers have the necessary comprehensive management systems in place to safely design, develop, manufacture and distribute medical devices in the European Union. CytoSorbents manufactures CytoSorb® at its manufacturing facilities in New Jersey for sale in the E.U. and for additional clinical studies. The Company also established a reimbursement path for CytoSorb® in Germany and Austria.

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

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

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

In the event we are able to successfully commercialize our products in the European market, we will review our plans for the United States to determine whether to conduct clinical trials in support of 510(k) or PMA registration. No assurance can be given that our CytoSorb® product will work as intended or that we will be able to obtain FDA approval to sell CytoSorb® in the United States.

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

In addition to the sepsis indication, we intend to continue to foster research in other critical care illnesses where CytoSorb® could be used, such as ARDS, trauma, severe burn injury and acute pancreatitis, or in other acute conditions that have demonstrated potential in preliminary studies to prevent or reduce the accumulation of cytokines in the bloodstream. These other conditions include the prevention of post-operative complications of cardiac surgery (cardiopulmonary bypass surgery) and damage to organs donated for transplant prior to organ harvest. We are also exploring the potential benefits our technology may have in removing drugs and other substances from blood and physiologic fluids.

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

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

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

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

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

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

The Company has been successful in obtaining technology development contracts from agencies in the U.S. Department of Defense, including DARPA and the U.S. Army. In August 2012, DARPA awarded CytoSorbents a five-year technology development contract valued at $3.8 million as part of its “Dialysis-Like Therapeutics” (DLT) program to treat sepsis. DARPA is funding CytoSorbents to further develop its technologies to remove both cytokines and a variety of toxins. In 2012, CytoSorbents recognized approximately $1.1 million in grant income following the successful completion of milestones under its contract.

In December 2011 and September 2012, the U.S. Army Medical Research and Materiel Command awarded CytoSorbents a $100,000 Phase I SBIR (Small Business Innovation Research), and a $1 million Phase II SBIR contract, respectively, to develop our technologies for the treatment of trauma and burn injury. During 2012, we received the full amount of the Phase I SBIR contract and are in the process of finalizing the Phase II SBIR contract with the granting agency.

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

Results of Operations

Comparison for the Three Months Ended March 31, 2013 and 2012

Revenues

CytoSorbents generated revenues of approximately $371,000 and $50,000 for the three month periods ended March 31, 2013 and 2012 respectively. Product revenues of approximately $176,000 and $17,000 in the current three month periods ending March 31, 2013 and 2012 respectively were part of a direct sales effort to hospitals in Germany, Austria and Switzerland with a four person sales force in place only since August 2012, and an exploration of sales to distributor networks in other parts of Europe, versus an initial test market phase of CytoSorb in Germany. Additionally, grant revenue and other income approximated $195,000 and $33,000 for the three month periods ended March 31, 2013 and 2012 respectively. Product gross margins were approximately 61.5% for the quarter. Overall gross margins were approximately 31.7%, negatively impacted by the high cost materials and labor related to grant income.

Expenses

Our research and development costs were, approximately $704,000 and $633,000, for the three months ended March 31, 2013 and 2012 respectively. This represents an increase of approximately 11.3% or $71,000 primarily due to net decreases in expenditures related to our completed sepsis study and clinical and research programs of approximately $68,000, patent costs of $20,000 and lab supplies of $28,000 that were partially offset by increases in rent expenses of approximately $37,000, salaries of approximately $46,000 and option expenses of $104,000.

Our legal, financial and other consulting costs were $223,000 and $161,000 for the three months ended March 31, 2013 and 2012 respectively. This represents an increase of approximately 38.1%, or approximately $61,000 for the three months ended March 31, 2013 compared to the same time period in 2012. This is primarily comprised of an increase in legal fees of approximately $25,000 associated with patent review related costs, contract related legal fees of approximately $28,000 and approximately $7,000 in accounting fees which were associated with annual audit fees.

Our general and administrative costs were $613,000 and $269,000 for the three months ended March 31, 2013 and 2012 respectively. This represents an increase of approximately 127.5%, or approximately $344,000 for the three months ended March 31, 2013 compared to the same time period in 2012. This is primarily due to increases in costs related to commencing our European sales operations of approximately $170,000, an increase in salaries and payroll taxes of approximately $20,000, increases in medical insurance payments totaling approximately $15,000 and option expenses of $114,000.

Our net interest expenses were approximately $207,000 and $359,000 for the three months ended March 31, 2013 and 2012 respectively. This represents a decrease of approximately 42.5% or $153,000 for the three months ended March 31, 2013 compared to the same time period in 2012. The decrease is primarily due to a decrease of approximately $153,000 in non-cash related charges associated with the amortization of debt discount, which is presented in the net interest expenses category of our statement of operations.

We have experienced substantial operating losses since inception. As of March 31, 2013, we had a deficit accumulated during the development stage of approximately $100,948,000, which included losses of approximately $1,629,000 and $1,427,000 for the three month periods ended March 31, 2013 and 2012, respectively. 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 approximately $1,317,000 and $902,000 for the three month periods ended March 31, 2013.

Liquidity and Capital Resources

Since inception, our operations have been financed through the private placement of our debt and equity securities. At December 31, 2012, we had cash of approximately $1,729,000 and current liabilities of approximately $2,077,000. As of March 31, 2013, we had cash on hand of approximately $1,365,000 and current liabilities of approximately $993,000.

We believe that we have sufficient cash to fund our operations into the third quarter of 2013, following which we will need additional funding before we can complete additional clinical studies and commercialize our products. The SEC approved a registration statement for common stock filed for the funding agreement with Lincoln Park Capital Fund LLC (“LPC”). Subject to minimum pricing restrictions per the terms of the funding agreement, Management believes that the Company will be able to receive ongoing funding per the terms of this purchase agreement (See Note 9 to the Company’s Annual Report on Form 10-K filed with the Commission on April 03, 2013). The agreement with LPC has the potential to significantly extend the time that we may be able to fund our operations, provided that our share price remains at or above $0.10.

During April and May 2013, the Company received approximately $100,000 as proceeds from the sale of 911,205 shares of Common Stock per the terms of the Purchase Agreement with LPC at an average price of $0.110 per share of Common Stock. Per the terms of the Purchase Agreement the Company also issued an additional 19,230 shares of Common Stock as additional Commitment Fee shares.

In September 2012, the Company was granted a $1 million Phase 2 SBIR award from the U.S. Army Medical Research and Materiel Command to fund the further development of the Company's technologies to treat trauma and

burn injury. Payments under this award are contingent upon achievement of certain milestones, availability of funds, and finalizing the award contract with the granting agency. The Company is exploring potential eligibility in several other government sponsored grant programs which could, if approved, represent a substantial source of non-dilutive funds for our research programs. We will also continue to seek other funding sources for the long term needs of the Company. There can be no assurance that financing will be available on acceptable terms or at all. If adequate funds are unavailable, we may have to suspend, delay or eliminate one or more of our research and development programs or product launches or marketing efforts, or cease operations.

In addition, the Company received approximately $187,000 from the Defense Advanced Research Projects Agency (DARPA) in Q1 2013 following achievement of initial milestones of a five year technology development contract valued at $3.8 million, that was awarded in August 2012. The Company is eligible, pending achievement of certain development milestones in this “Dialysis-Like Therapeutics” initiative to treat sepsis, to receive up to $1.5 million (of the $3.8 million contract) in payments in the first 12 months of this contract, of which nearly $1.3 million has been received as of Q1 2013.

Off-balance Sheet Arrangements

We have no off-balance sheet arrangements.

Going Concern

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. The Company has experienced negative cash flows from operations since inception and has a deficit accumulated during the development stage at March 31, 2013 of approximately $100,947,819. The Company is not currently generating significant revenue and is dependent on the proceeds of present and future financings to fund its research, development and commercialization program. These matters raise substantial doubt about the Company's ability to continue as a going concern. The Company is continuing its fund-raising efforts. Although the Company has historically been successful in raising additional capital through equity and debt financings, there can be no assurance that the Company will be successful in raising additional capital in the future or that it will be on favorable terms. Furthermore, if the Company is successful in raising the additional financing, there can be no assurance that the amount will be sufficient to complete the Company's plans. These consolidated financial statements do not include any adjustments related to the outcome of this uncertainty.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable to smaller reporting companies.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) and Rule 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended, as of March 31, 2013. Based on this evaluation, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures were ineffective at such time to ensure that

information required to be disclosed by us in the reports filed or submitted under the Securities Exchange Act were recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Our principal executive officer and principal financial officer also concluded that our disclosure controls, which are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act is accumulated and communicated to management, was inappropriate to allow timely decisions regarding required disclosure.

Additionally, based on management's assessment, the Company determined that there were material weaknesses in its internal control over financial reporting as of March 31, 2013.

Therefore, our internal controls over financial reporting were not effective as of March 31, 2013 based on the material weaknesses described below:

(1) Lack of an independent audit committee or audit committee financial expert. Although our board of directors serves as the audit committee it has no independent directors. Further, we have not identified an audit committee financial expert on our board of directors. These factors are counter to corporate governance practices as defined by the various stock exchanges and may lead to less supervision over management.

(2) We do not have sufficient experience from our accounting personnel with the requisite U.S. GAAP public company reporting experience that is necessary for adequate controls and procedures.

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

Our management determined that these deficiencies constituted material weaknesses.

Due to our small size, we were not able to immediately take any action to remediate these material weaknesses but plan to address these items in the near future. Notwithstanding the assessment that our Internal Controls over Financial Reporting was not effective and that there were material weaknesses identified herein, we believe that our consolidated financial statements contained in this Annual Report fairly present our financial position, results of operations and cash flows for the years covered thereby in all material respects.

Changes in Internal Controls over Financial Reporting

There has been no change in our internal control over financial reporting that occurred during the fiscal quarter covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially

affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

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

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits.

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

In accordance with SEC Release 33-8238, Exhibit 32.1 and 32.2 are being furnished and not filed.

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

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CYTOSORBENTS CORPORATION

Dated: May 15, 2013 By: /s/ Phillip Chan
Name: Phillip Chan
Title: Chief Executive Officer
(Duly Authorized Officer and Principal Executive Officer)

Dated: May 15, 2013 By: /s/ Ronald E. Berger
Name: Ronald E Berger, CPA
Title: Interim Chief Financial Officer
(Duly Authorized Officer and Principal Financial Officer)

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