CONTANGO OIL & GAS CO
Form 4
November 19, 2002
SEC Form 4

FORM 4 **[ ] Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. See Instruction 1(b).**	**UNITED STATES SECURITIES AND EXCHANGE COMMISSION** **Washington, D.C. 20549** **STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP** Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940	OMB APPROVAL OMB Number: 3235-0287 Expires: January 31, 2005 Estimated average burden hours per response. 0.5

1. Name and Address of Reporting Person* **Peak, Kenneth R.** (Last) (First) (Middle) **3700 Buffalo Speedway** **Suite 960** (Street) **Houston, TX 77098** (City) (State) (Zip)	2. Issuer Name and Ticker or Trading Symbol **Contango Oil & Gas Company** 3. I.R.S. Identification Number of Reporting Person, if an entity (voluntary)	4. Statement for Month/Day/Year **11/15/2002** 5. If Amendment, Date of Original (Month/Day/Year)	6. Relationship of Reporting Person(s) to Issuer (Check all applicable) _ Director _ 10% Owner X Officer (give title below) _ Other (specify below) Description **Chairman & CEO** 7. Individual or Joint/Group Filing (Check Applicable Line) X Form filed by One Reporting Person _ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1. Title of Security (Instr. 3)	2.Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed Of (D) (Instr. 3, 4, and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	A/D	Price			
Common Stock	**11/15/2002**		**P**		**4,400**	**A**	**$2.53**	**1,156,559**	**D**	
Common Stock	**11/15/2002**		**P**		**3,000**	**A**	**$2.56**	**1,159,559**	**D**	

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(e.g., puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative	3. Transaction Date (Month/ Day/	3A. Deemed Execution Date, if any	4. Transaction Code (Instr.8)	5. Number of Derivative Securities Acquired	6. Date Exercisable (DE) and Expiration Date (ED) (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)	8. Price of Derivative Security (Instr.5)	9. Number of Derivative Securities Beneficially Owned Following	10. Ownership Form of Derivative	11. Na In Be Ow (In

	Security	Year)	(Month/ Day/ Year)			(A) or Disposed Of (D) (Instr. 3, 4 and 5)							Reported Transaction(s) (Instr.4)	Securities: Direct (D) or Indirect (I) (Instr.4)
				Code	V	A	D	DE	ED	Title	Amount or Number of Shares			

Explanation of Responses:

By:
/s/ Kenneth R. Peak

11/19/2002

** Signature of Reporting Person

Date

SEC 1474 (8-02)

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

* If the form is filed by more than one reporting person, see Instruction 4(b)(v).
** Intentional misstatements or omissions of facts constitute Federal Criminal Violations See 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).
Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, see Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not
required to respond unless the form displays a currently valid OMB Number.

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Equity issued to consultants

88,363

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88,363

Recognition of deferred compensation

47,001

(47,001
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—

Amortization of deferred compensation

—

15,667

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—

15,667

Subscriptions receivable

100,000

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—

100,000

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Net loss	—	—	—	—	—	—	—	—	—	(3,066,388)	(3,066,388)
Balance at December 31, 1999	10,321,630	(31,334)	—	—	—	—	—	—	—	(10,189,748)	100,548
Equity contributions	14,407,916	—	—	—	—	—	—	—	—	—	14,407,916
Equity issued to consultants	1,070,740	—	—	—	—	—	—	—	—	—	1,070,740
Warrants issued to consultants	468,526	—	—	—	—	—	—	—	—	—	468,526
Recognition of deferred compensation	27,937	(27,937)	—	—	—	—	—	—	—	—	—
Amortization of deferred compensation	—	46,772	—	—	—	—	—	—	—	—	46,772
Net loss	—	—	—	—	—	—	—	—	—	(10,753,871)	(10,753,871)
Balance at December 31, 2000	26,296,749	(12,499)	—	—	—	—	—	—	—	(20,943,619)	5,340,631
Equity contributions	13,411,506	—	—	—	—	—	—	—	—	—	13,411,506
Equity issued to consultants	161,073	—	—	—	—	—	—	—	—	—	161,073
Stock options issued to employee	2,847	—	—	—	—	—	—	—	—	—	2,847
Fees incurred in raising capital	(1,206,730)	—	—	—	—	—	—	—	—	—	(1,206,730)
Amortization of deferred compensation	—	12,499	—	—	—	—	—	—	—	—	12,499
Net loss	—	—	—	—	—	—	—	—	—	(15,392,618)	(15,392,618)
Balance at December 31, 2001	38,665,445	—	—	—	—	—	—	—	—	(36,336,237)	2,329,208
Equity contributions	6,739,189	—	—	—	—	—	—	—	—	—	6,739,189
	156,073	—	—	—	—	—	—	—	—	—	156,073

Equity issued to consultants											
Options issued to consultant	176,250	—	—	—	—	—	—	—	—	—	176,250
Options issued to employee	2,847	—	—	—	—	—	—	—	—	—	2,847
Fees incurred in raising capital	(556,047)	—	—	—	—	—	—	—	—	—	(556,047)
Forgiveness of loan receivable in exchange for equity	(1,350,828)	—	—	—	—	—	—	—	—	—	(1,350,828)
Net loss	—	—	—	—	—	—	—	—	—	(11,871,668)	(11,871,668)
Balance at December 31, 2002	43,832,929	—	—	—	—	—	—	—	—	(48,207,905)	(4,374,976)
Equity contributions	4,067,250	—	—	—	—	—	—	—	—	—	4,067,250
Equity issued to consultants	16,624	—	—	—	—	—	—	—	—	—	16,624
Change in fair value of management units	2,952,474	—	—	—	—	—	—	—	—	—	2,952,474
Options issued to consultant	65,681	—	—	—	—	—	—	—	—	—	65,681
Fees incurred in raising capital	(343,737)	—	—	—	—	—	—	—	—	—	(343,737)
Forgiveness of loan receivable in exchange for equity	(281,340)	—	—	—	—	—	—	—	—	—	(281,340)
Net loss	—	—	—	—	—	—	—	—	—	(6,009,283)	(6,009,283)
Balance at December 31, 2003	50,309,881	—	—	—	—	—	—	—	—	(54,217,188)	(3,907,307)
Equity contributions	512,555	—	—	—	—	—	—	—	—	—	512,555
Change in fair value of management units	(2,396,291)	—	—	—	—	—	—	—	—	—	(2,396,291)

Fees incurred in raising capital	(80,218)	—	—	—	—	—	—	—	—	—	(80,218
Net Loss	—	—	—	—	—	—	—	—	—	(1,096,683)	(1,096,683
Balance at December 31, 2004	48,345,927	—	—	—	—	—	—	—	—	(55,313,871)	(6,967,944
Equity contributions	92,287	—	—	—	—	—	—	—	—	—	92,287
Settlement of accounts payable in exchange for equity	836,319	—	—	—	—	—	—	—	—	—	836,319
Conversion of convertible notes payable and accrued interest for equity	51,565	—	—	—	—	—	—	—	—	—	51,565
Change in fair value of management units	(14,551)	—	—	—	—	—	—	—	—	—	(14,551
Fees incurred in raising capital	(92,287)	—	—	—	—	—	—	—	—	—	(92,287
Reorganization from LLC to "C" Corporation	(49,219,260)	—	4,829,120	4,829	—	—	—	—	49,214,431	—	
Net loss	—	—	—	—	—	—	—	—	—	(3,665,596)	(3,665,596
Balance at December 31, 2005	—	—	4,829,120	4,829	—	—	—	—	49,214,431	(58,979,467)	(9,760,207
Issuance of common stock for stock subscribed	—	—	240,929	241	—	—	—	—	799,644	—	799,885
Issuance of common stock to investor group for price protection	—	—	100,000	100	—	—	—	—	(100)	—	
Issuance of stock options to employees, consultants and directors	—	—	—	—	—	—	—	—	143,352	—	143,352
Issuance of 10% Series A Preferred Stock for	—	—	—	—	—	—	5,300,000	5,300	5,530,143	(235,443)	5,300,000

cash									
Cost of raising capital associated with issuance of preferred stock	——	—		———	—	—	(620,563)	—	(620,563
Shares held by original stockholders of Parent immediately prior to merger	——	3,750,000	3,750	——	—	—	(3,750)	—	
Conversion of convertible debt, related accrued interest and shares to induce conversion into common stock	——	5,170,880	5,171	——	—	—	11,376,939	—	11,382,11
Issuance of common stock in consideration for funding $1,000,000 convertible note payable per terms of merger transaction	——	10,000,000	10,000	——	—	—	990,000	—	1,000,00
Issuance of common stock in exchange for accounts payable and services rendered	——	778,274	779	——	—	—	587,035	—	587,81
Conversion of common stock issued prior to reverse merger for 10% Series A Preferred Stock	——	(240,929)	(241)	——	799,885	800	30,194	(30,753)	
Non-cash stock dividends on 10% Series A Preferred Stock	——	—		———	303,700	303	303,397	(303,700)	
Issuance of preferred stock for redemption of convertible note	——	—		———	1,000,000	1,000	1,204,640	(205,640)	1,000,00

Issuance of warrants to consultants for services	——	—	—	—	—	—	—	9,883	—	9,883
Issuance of warrants in exchange for accounts payable	——	—	—	—	—	—	—	192,311	—	192,311
Net loss	——	—	—	—	—	—	—	—	(7,671,580)	(7,671,580)
Balance at December 31, 2006	——	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	——	—	—	—	—	—	—	498,955	—	498,955
Issuance of common stock in settlement of accounts payable	——	11,501	11	—	—	—	—	22,991	—	23,002
Conversion of preferred stock into common stock	——	405,157	405	—	—	(506,446)	(506)	101	—	—
Issuance of Series A Preferred Stock as dividends and settlement of dividends/penalties payable in connection with non-registration event	——	—	—	—	—	1,122,369	1,122	1,121,246	(760,872)	361,496
Net loss	——	—	—	—	—	—	—	—	(3,350,754)	(3,350,754)
Balance at December 31, 2007	——	25,044,932	25,045	—	—	8,019,508	8,019	71,400,849	(71,538,209)	(104,296)
Stock based compensation - employees, consultants and	——	—	—	—	—	—	—	363,563	—	363,563

directors										
Issuance of Series A Preferred Stock as dividends	——	—	—	—	—	830,384	831	277,087	(277,918)	—
Issuance of Series B Preferred Stock for cash and conversion of $175,000 of convertible debt	——	—	—	52,931.47	53	—	—	5,657,842	(364,747)	5,293,148
Cost of raising capital associated with issuance of Series B Preferred Stock	——	—	—	—	—	—	—	(215,398)	—	(215,398)
Issuance of Series B Preferred Stock as dividends	——	—	—	2,627.17	2	—	—	262,715	(262,717)	—
Issuance of warrants upon conversion of convertible notes payable into Series B Preferred Stock	——	—	—	—	—	—	—	40,354	—	40,354
Conversion of Series A Preferred stock into common	——	218,585	219	—	—	(56,832)	(57)	(162)	—	—
Net loss	——	—	—	—	—	—	—	—	(3,017,890)	(3,017,890)
Balance at December 31, 2008	——	25,263,517	25,264	55,558.64	55	8,793,060	8,793	77,786,850	(75,461,481)	2,359,481
Stock based compensation - employees, consultants and directors	——	—	—	—	—	—	—	236,705	—	236,705
Issuance of Series A Preferred Stock as dividends	——	—	—	—	—	789,610	789	110,809	(111,598)	—

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Issuance of Series B Preferred Stock as dividends	—	—	—	—	5,860.22	6	—	
Exercise of warrants	—	—	—	—	13,357.52	13	—	
Warrant modification as inducement to exercise	—	—	—	—	—	—	—	
Conversion of notes payable and accrued interest to Series B Preferred Shares	—	—	—	—	576.05	1	—	
Conversion of Series A and B Preferred stock into common	—	—	41,111,339	41,111	(6,628.55)	(6)	(3,326,857)	(3
Net loss	—	—	—	—	—	—	—	
Balance December 31, 2009	—	—	66,374,856	66,375	68,723.88	69	6,255,813	6,2
Stock based compensation - employees, consultants and directors	—	—	—	—	—	—	—	
Issuance of Series A Preferred Stock as dividends	—	—	—	—	—	—	590,159	
Issuance of Series B Preferred	—	—	—	—	6,232.81	6	—	

Stock as dividends								
Conversion of Series A and Series B Preferred into Common	—	—	47,824,298	47,824	(13,983.58)	(14)	(1,019,563)	(1
Issuance of common stock for cash	—	—	7,174,186	7,174	—	—	—	
Cost of raising capital	—	—	1,465,071	1,465	—	—	—	
Relative fair value of warrants and beneficial conversion feature in connection with issuance of convertible notes	—	—	—	—	—	—	—	
Net loss	—	—	—	—	—	—	—	
Balance at December 31, 2010	$ -	$ -	122,838,411	$ 122,838	60,973.11	$ 61	5,826,409	$ 5

The Notes to Consolidated Financial Statements are an integral part of these financial statements.

CYTOSORBENTS CORPORATION
(a development stage company)

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Period from January 22, 1997 (date of inception) to December 31, 2010	Year ended December 31, 2010	Year ended December 31, 2009
Cash flows from operating activities:			
Net loss	$ (78,665,271)	$ (2,908,865)	$ (2,736,715)
Adjustments to reconcile net loss to net cash used by operating activities:			
Common stock issued as inducement to convert convertible notes payable and accrued interest	3,351,961	—	—
Issuance of common stock to consultants for services	30,000	—	—
Depreciation and amortization	2,410,265	17,804	51,695
Amortization of debt discount	1,048,943	48,943	—
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	—	14,885
Expense for issuance of options	1,639,525	149,325	236,705
Amortization of deferred compensation	74,938	—	—
Penalties in connection with non-registration event	361,496	—	—
Changes in operating assets and liabilities:			
Prepaid expenses and other current assets	(616,084)	24,555	(252,088)
Other assets	(56,394)	—	10,239
Accounts payable and accrued expenses	2,988,562	190,980	666
Accrued interest	1,823,103	—	—
Net cash used by operating activities	(58,748,882)	(2,477,258)	(2,674,613)
Cash flows from investing activities:			
Proceeds from sale of property and equipment	32,491	—	—
Purchases of property and equipment	(2,366,288)	(139,356)	(6,411
Patent costs	(461,740)	(26,093)	(7,917)
Purchases of short-term investments	(393,607)		
Proceeds from sale of short-term investments	393,607	—	199,607
Loan receivable	(1,632,168)	—	—

Net cash (used) provided by investing activities	(4,427,705)	(165,449)	185,279
Cash flows from financing activities:			
Proceeds from issuance of common stock	400,490	—	—
Proceeds from issuance of preferred stock, net of related issuance costs	9,579,040	—	—
Equity contributions - net of fees incurred	43,814,450	767,498	1,335,754
Proceeds from borrowing	9,938,881	1,335,250	—
Proceeds from subscription receivables	499,395	—	—
Net cash provided by financing activities	64,232,256	2,102,748	1,335,754

The Notes to Consolidated Financial Statements are an integral part of these statements.

CYTOSORBENTS CORPORATION
(a development stage company)

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Period from January 22, 1997 (date of inception) to December 31, 2010	Year ended December 31, 2010	Year ended December 31, 2009
Net increase (decrease) in cash and cash equivalents	1,055,669	(539,959)	(1,153,580)
Cash and cash equivalents at beginning of period	—	1,595,628	2,749,208
Cash and cash equivalents at end of period	$ 1,055,669	$ 1,055,669	$ 1,595,628
Supplemental disclosure of cash flow information:			
Cash paid during the period for interest	$ 590,189	$ —	$ —
Supplemental schedule of noncash financing activities:			
Debt discount in connection with issuance of convertible debt	$ 306,805	$ 306,805	—
Fair value of shares issued as costs of raising capital	$ 229,606	$ 229,606	
Note payable principal and interest conversion to equity	$ 10,434,319	$ —	$ 57,605
Issuance of member units for leasehold improvements	$ 141,635	$ —	$ —
Issuance of management units in settlement of cost of raising capital	$ 437,206	$ —	$ —
Change in fair value of management units for cost of raising capital	$ 278,087	$ —	$ —
Exchange of loan receivable for member units	$ 1,632,168	$ —	$ —
Issuance of equity in settlement of accounts payable	$ 1,609,446	$ —	$ —
Issuance of common stock in exchange for stock subscribed	$ 399,395	$ —	$ —
Costs paid from proceeds in conjunction with issuance of preferred stock	$ 768,063	$ —	$ —
Preferred stock dividends	$ 5,323,579	$ 2,177,464	$ 704,325
Net effect of conversion of common stock to preferred stock prior to merger	$ 559	$ —	$ —

During the years ended December 31, 2010 and 2009, 13,983.58 and 6,628.55 Series B Preferred Shares were converted into 38,628,675 and 18,310,911 Common Shares, respectively. During the years ended December 31, 2010 and 2009, 1,019,563 and 3,326,857 Series A Preferred Shares were converted into 9,195,623 and 22,800,428 Common Shares, respectively. For the period from January 22, 1997 (date of inception) to December 31, 2010, 20,612.13 Series B Preferred Shares and 4,909,698 Series A Preferred Shares were converted into 56,939,586 and 32,619,793 Common Shares, respectively.

During the years ended December 31, 2010 and 2009, no shares of Series B Preferred Shares were issued in connection with non-registration events as settlement of dividends/penalties payable. For the period from January 22, 1997 (date of inception) to December 31, 2010, 553,629 Series A Preferred Shares and -0- Series B Preferred Shares were issued in connection with non-registration events as settlement of dividends/penalties payable.

The Notes to Consolidated Financial Statements are an integral part of these statements.

CYTOSORBENTS CORPORATION
(a development stage company)
Notes to Consolidated Financial Statements

1. BASIS OF PRESENTATION

The accompanying consolidated financial statements include the results of CytoSorbents Corporation (the “Parent”), formerly known as Gilder Enterprises, Inc., and CytoSorbents, Inc. its wholly-owned operating subsidiary (the “Subsidiary”), collectively referred to as “the Company.”

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 December 31, 2010 of $83,988,850. 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 matters raise substantial doubt about the Company’s ability to continue as a going concern. 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 29 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 December 31, 2010, 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, CytoSorbents Corporation, and its wholly-owned subsidiary, CytoSorbents, Inc. All significant intercompany transactions and balances have been eliminated in consolidation.

Development Stage Corporation

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

Cash and Cash Equivalents

The Company considers all highly liquid debt instruments 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 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.

Research and Development

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

For the years ended December 31, 2010 and December 31, 2009,the Company's operating results include grant income of approximately $604,000 and $99,000, which were recorded as a reduction of research and development expenses during each year. Grant income received during the year ended December 31, 2010 was primarily composed of approximately $489,000 in Qualified Therapeutic Discovery Project grants ("QTDP") under Section 48D of the Internal Revenue Code, as enacted under the Patient Protection and Affordable Care Act of 2010.

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.

The Company follows the accounting standards associated with uncertain tax provisions. The adoption of this standard did not have a material impact on the Company's consolidated statements of operations or financial position. Upon adoption of this accounting standard, the Company had no unrecognized tax benefits. Furthermore, the Company had no unrecognized tax benefits at December 31, 2010. The Company files tax returns in the U.S. federal and state jurisdictions. The Company currently has no open years prior to December 31, 2007 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 and the valuation of preferred shares issued as stock dividends.

Concentration of Credit Risk

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

Financial Instruments

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

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 10).

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.

3. PROPERTY AND EQUIPMENT, NET:

Property and equipment - net, consists of the following:

December 31,	2010	2009	Depreciation/ Amortization Period
Furniture and fixtures	$ 130,015	$ 130,015	7 years
Equipment and computers	1,867,323	1,737,652	3 to 7 years
Leasehold improvements	462,980	462,980	Term of lease
	2,460,318	2,330,647	
Less accumulated depreciation and amortization	2,316,172	2,311,794	
Property and Equipment, Net	$ 144,146	$ 18,853	

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Depreciation expense for the years ended December 31, 2010 and 2009 amounted to $4,378 and $39,615, respectively. Depreciation expense from inception to December 31, 2010 amounted to $2,343,261.

4. OTHER ASSETS:

Other assets consist of the following:

December 31,	2010	2009
Intangible assets, net	$ 211,181	$ 198,514
Security deposits	56,394	56,394
Total	$ 267,575	$ 254,908

Intangible assets consist of the following:

December 31,	2010		2009	
	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
Patents	$ 278,183	$ 67,002	$ 252,090	$ 53,576

Amortization expense amounted to $13,426 and $12,080 for the years ended December 31, 2010 and 2009, respectively. Amortization expense from inception to December 31, 2010 amounted to $67,003.

Amortization expense is anticipated to be approximately $13,000 for the next five years ended December 31, 2015.

5. ACCOUNTS PAYABLE AND ACCRUED EXPENSES:

Accounts Payable and accrued expenses consist of the following:

	2010	2009
Other payable	$186,170	$195,527
Legal, financial and consulting	117,841	184,663
Research and development	915,108	590,575
	$1,219,119	$970,765

6. CONVERTIBLE NOTES:

During the third and fourth quarters of 2010 the Company issued 24-month Promissory Notes in the aggregate principal amount of $1,335,250, which accrue interest at the rate of 8% per annum. This amount includes principal and accrued interest of Promissory Notes that were originally issued in January 2010 that, through the option of the Note holder, were cancelled and exchanged for the new Notes issued in August. Upon this exchange, the investor who originally owned the January Notes also received an additional five year warrant to purchase 886,250 shares of Common Stock at an exercise price of $0.10 per share. Per the terms of the Notes issued in August, the investors will be repaid in equity of the Company, not cash. During the term of the Notes, investors may at any time convert outstanding principal and interest into Common Stock of the Company at a rate of $0.10 per share. In addition, during the term of the Note, should the Company complete any subsequent financing, debt or equity, in an aggregate amount greater or equal to $750,000, which includes any equity component or the right to convert into equity, the investor shall have the option to exchange any outstanding principal and interest of the Note into the new financing. Pursuant to the terms of the Promissory Note, the note holder will receive warrant coverage in the form of five year warrants to purchase that number of shares of common stock as follows: that number of shares of Common Stock equal to the quotient obtained by dividing (x) 50% of the Principal, by (y) $0.10, with the resulting number of shares having an exercise price equal to $0.10 per share of Common Stock, plus that number of shares of Common Stock equal to the quotient obtained by dividing (x) 25% of the Principal, by (y) $0.125, with the resulting number of shares having an exercise price equal to $0.125 per share of Common Stock, plus that number of shares of Common Stock equal to the quotient obtained by dividing (x) 25% of the Principal, by (y) $0.15, with the resulting number of shares having an exercise price equal to $0.15 per share of Common Stock. The warrants have a cashless exercise provision. If during the term of the Note, and as long as the Note investor continues to own an outstanding balance of the Note, the Company has an equity financing of less than $750,000 that values the Company on a pre-money basis at or below $35 million on a fully-diluted basis, the Note investor will have a right of first refusal to participate in the financing per the terms of the Note. The Promissory Notes do not have registration rights for the shares underlying the notes or warrants.

The Company allocates the proceeds associated with the issuance of promissory notes based on the relative fair value of the promissory notes and warrants. Additionally, the Company evaluates if the embedded conversion option results in a beneficial conversion feature by comparing the relative fair value allocated to the promissory notes to the market value of the underlying common stock subject to conversion. In connection with the promissory note issuances during the year ended December 31, 2010 the Company received total proceeds of $1,335,250. The Company allocated the total proceeds in accordance with FASB Codification Topic 470 based on the related fair value as follows: $1,028,445 was allocated to the promissory notes and $188,031 to the warrants. Additionally, the embedded conversion feature resulted in a beneficial conversion feature in the amount of $118,774. The value assigned to the warrants resulting from the relative fair value calculation as well as the value of the beneficial conversion feature is recorded as a debt discount and is presented in the consolidated balance sheets. The debt discount is being amortized to interest expense over the term of the promissory notes and amounted to $48,943 and $0 for the years ended December 31, 2010 and 2009, respectively.

7. INCOME TAXES:

Tax losses amounted to approximately $2,700,000 and $2,500,000 for the years ended December 31, 2010 and December 31, 2009, respectively. The Company’s Federal net operating loss carryforward amounts to approximately $11,720,000 and expires through 2030. These loss carryforwards are subject to limitation in future years should certain ownership changes occur. A full valuation allowance equal to the deferred tax asset has been recorded due to the uncertainty that the Company will have the ability to utilize such asset.

During the year ended December 31, 2009 the Company sold a portion of its New Jersey Net Operating Loss tax carryforwards to an industrial company under provisions in the New Jersey tax code. For the 2009 sale, the Company received proceeds of approximately $299,000. The Company's remaining New Jersey net operating loss carryforward amounts to approximately $6,967,000 and expires through 2017. During the year ended December 31, 2010 the Company was not eligible to participate in the New Jersey state program. There can be no assurance that the Company will again be eligible in the future to participate or be successful in future sales of its New Jersey Net Operating Loss tax carryforwards.

For the years ended December 31, 2010 and December 31, 2009, respectively, the Company's effective tax rate differs from the federal statutory rate principally due to net operating losses offset by certain non-deductible expenses for which no benefit has been recorded.

A reconciliation of the Federal statutory rate to the Company's effective tax rate for the years ended December 31, 2010 and December 31, 2009 is as follows:

	2010		2009	
Federal statutory rate	(34.0	)%	(34.0	)%
Decrease resulting from:				
Non-deductible expenses	1.7		2.5	
Net operating losses	32.3		31.5	
Effective tax rate	—	%	—	%

8. COMMITMENTS AND CONTINGENCIES:

The Company is obligated under non-cancelable operating leases for office space expiring at various dates through March 2013. The aggregate minimum future payments under these leases are approximately as follows:

Year ending December 31,

	2011	$	131,500
	2012		131,500
	2013		32,900
Total		$	295,900

The preceding data reflects existing leases through the date of this report and does not include replacements upon their expiration. In the normal course of business, operating leases are normally renewed or replaced by other leases.

Rent expense for the years ended December 31, 2010 and 2009 amounted to approximately $241,000 and $258,000, respectively.

Employment Agreements

The Company has employment agreements with certain key executives through December 2010. The agreements provide for annual base salaries of varying amounts. The Company is currently in the process of renewing these agreements.

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.

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

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 December 31, 2010. 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, 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. The Company has not generated any revenue from its products and has not incurred any royalty costs through December 31, 2010. The amount of future revenue subject to the Settlement Agreement could not be reasonably estimated nor has a liability been incurred, therefore, an accrual for royalty payments has not been included in the consolidated financial statements.

Warrant Agreement

As inducement to invest additional funds in the private placement of Series B Preferred Stock, additional consideration was granted to the participants of the Series B Preferred Stock offering in the event that litigation is commenced against 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 December 31, 2010 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.

9. STOCKHOLDERS' EQUITY

Preferred Stock

Our certificate of incorporation authorizes the issuance of up to 100,000,000 shares of "blank check" preferred stock, with such designation rights and preferences as may be determined from time to time by the Board of Directors. We have designated 12,000,000 shares of Series A Preferred Stock and 200,000 shares of Series B Preferred Stock as described above. Subject to the rights of the holders of the Series A and Series B Preferred Stock, our Board of Directors is empowered, without stockholder approval, to issue up to 87,800,000 additional shares of preferred stock with dividend, liquidation, conversion, voting or other rights.

10% Series A Preferred Stock

Each share of Series A Preferred Stock has a stated value of $1.00, and is convertible at the holder's option into that number of shares of Common Stock equal to the stated value of such share of Series A Preferred Stock divided by an initial conversion price of $1.25. Upon the occurrence of a stock split, stock dividend, combination of the Common Stock into a smaller number of shares, issuance of any of shares of Common Stock or other securities by reclassification of the Common Stock, merger or sale of substantially all of the Company's assets, the conversion rate will be adjusted so that the conversion rights of the Series A Preferred Stock stockholders will be equivalent to the conversion rights of the Series A Preferred Stock stockholders prior to such event. In addition, in the event the Company sells shares of Common Stock (or the equivalent thereof) at a price of less than $1.25 per share, the conversion price of the shares of Series A Preferred Stock will be reduced to such lower price. In addition, in the event the Company sells shares of Common Stock (or the equivalent thereof) at a price of less than $2.00 per share, the exercise price of the warrants issued to the holders of the Series A Preferred Stock will be reduced to such lower price. As of the "Qualified Closing" of our Series B Preferred Stock private placement in August of 2008, these investors' agreed to a modification of their rights and pricing and gave up their anti-dilution protection – see Qualified Closing description in Series B Preferred Stock section.

Pursuant to agreements with the June 30, 2006 purchasers of Series A Preferred Stock that waived rights to anti-dilution price protection upon the completion of the Series B offering, the Company reduced the conversion price for these holders of Series A Preferred Stock from $1.25 per share of Common to prices ranging from $0.10 to $0.45 per share of Common. The June 30, 2006 purchasers of Series A Preferred Stock also received reductions in their corresponding warrant exercise prices from $2.00 per share of Common Stock to exercise prices ranging from $0.40 to $0.90 per share of Common Stock.

The Series A Preferred Stock bears a dividend of 10% per annum payable quarterly, at the Company's election in cash or additional shares of Series A Preferred Stock valued at the stated value thereof; provided, however, that the Company must pay the dividend in cash if an "Event of Default" as defined in the Certificate of Designation designating the Series A Preferred Stock has occurred and is then continuing. In addition, upon an Event of Default, the dividend rate increases to 20% per annum. An Event of Default includes, but is not limited to, the following:

- the occurrence of "Non-Registration Events";
- an uncured breach by the Company of any material covenant, term or condition in the Certificate of Designation or any of the related transaction documents; and
- any money judgment or similar final process being filed against the Company for more than $100,000.

In the event of the Company's dissolution, liquidation or winding up, the holders of the Series A Preferred Stock will receive, in priority over the holders of Common Stock, a liquidation preference equal to the stated value of such shares plus accrued dividends thereon.

The Series A Preferred Stock is not redeemable at the option of the holder but may be redeemed by the Company at its option following the third anniversary of the issuance of the Series A Preferred Stock for 120% of the stated value thereof plus any accrued but unpaid dividends upon 30 days' prior written notice, during which time the Series A Preferred Stock may be converted, provided a registration statement is effective under the Securities Act with respect to the Common Stock into which such Preferred is convertible and an Event of Default is not then continuing.

Holders of Series A Preferred Stock do not have the right to vote on matters submitted to the holders of Common Stock.

The registration rights provided for in the subscription agreements entered into with the purchasers of the Series A Preferred Stock: 1) required that the Company file a registration statement with the SEC on or before 120 days from the closing to register the shares of Common Stock issuable upon conversion of the Series A Preferred Stock and exercise of the warrants, and cause such registration statement to be effective within 240 days following the closing; and 2) entitles each of these investors to liquidated damages in an amount equal to two percent (2%) of the purchase price of the Series A Preferred Stock if the Company fails to timely file that registration statement with, or have it declared effective by, the SEC.

The transaction documents entered into with the purchasers of the Series A Preferred Stock also provide for various penalties and fees for breaches or failures to comply with provisions of those documents, such as the timely payment of dividends, delivery of stock certificates upon conversion of the Series A Preferred Stock or exercise of the warrants, and obtaining and maintaining an effective registration statement with respect to the shares of Common Stock underlying the Series A Preferred Stock and warrants sold in the offering.

The Company has recorded non-cash stock dividends in connection with the issuance of Series A Preferred Stock as a stock dividend to its preferred shareholders as of December 31, 2010. Prior to February 26, 2007 and after May 7, 2007, the dividend rate was 10% per annum. 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 increased from 10% per annum to 20% per annum, and (iii) such purchasers were entitled to liquidated 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, as modified by the Settlement Agreement described below, the Company's financial statements for the year ending December 31, 2007 also reflect an aggregate charge of $361,495. 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 entered into in August 2007 with the June 30, 2006 purchasers of the Series A Preferred Stock, 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 were paid with additional shares of Series A Preferred Stock at its stated value of $1.00 per share in lieu of cash. The settlement, did not result in a gain or loss on extinguishment of debt for the year ended December 31, 2007. 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.

During the years ended December 31, 2010 and 2009, the Company issued 590,159 and 789,610 shares of Series A Preferred Stock respectively as payment of stock dividends at the stated value of $1.00 per share. The fair value of the non-cash stock dividends for the years ended December 31, 2010 and 2009 amounted to $168,582 and $111,599, respectively.

10 % Series B Cumulative Convertible Preferred Stock
Each share of Series B Preferred Stock has a stated value of $100.00, and is convertible at the holder's option into that number of shares of Common Stock equal to the stated value of such share of Series B Preferred Stock divided by an initial conversion price of $0.035, subject to certain adjustments. Additionally, upon the occurrence of a stock split, stock dividend, combination of the Common Stock into a smaller number of shares, issuance of any of shares of Common Stock or other securities by reclassification of the Common Stock, merger or sale of substantially all of the Company's assets, the conversion rate will be adjusted so that the conversion rights of the Series B Preferred Stock stockholders will be equivalent to the conversion rights of the Series B Preferred Stock stockholders prior to such event.

The Series B Preferred Stock bears a dividend of 10% per annum payable quarterly; provided, that if an "Event of Default" as defined in the Certificate of Designation designating the Series B Preferred Stock has occurred and is then continuing, the dividend rate increases to 20% per annum. An Event of Default includes, but is not limited to, the following:

- the occurrence of "Non-Registration Events";
- an uncured breach by the Company of any material covenant, term or condition in the Certificate of Designation or any of the related transaction documents; and
- any money judgment or similar final process being filed against the Company for more than $100,000.

Dividends on the Series B Preferred Stock will be made in additional shares of Series B Preferred Stock, valued at the stated value thereof. Notwithstanding the foregoing, during the first three-years following the initial closing, upon the approval of the holders of a majority of the Series B Preferred Stock, including the lead investor, NJTC Venture Fund ("NJTC"), if it then owns 25% of the shares of Series B Preferred Stock initially purchased by it (the "Required Amount"), the Company may pay dividends in cash instead of additional shares of Series B Preferred Stock, and after such three-year period, the holders of a majority of the Series B Preferred Stock, including NJTC if it then owns the Required Amount, may require that such payments be made in cash.

In the event of the Company's dissolution, liquidation or winding up, the holders of the Series B Preferred Stock will receive, in priority over the holders of Series A Preferred Stock and Common Stock, a liquidation preference equal to the stated value of such shares plus accrued dividends thereon.

Holders of Series B Preferred Stock have the right to vote on matters submitted to the holders of Common Stock on an as converted basis.

The Company has agreed to file a registration statement under the Securities Act covering the Common Stock issuable upon conversion of the Series B Preferred Stock within 180 days following the initial closing and to cause it to become effective within 240 days of such closing. The Company also granted the investors demand and piggyback registration rights with respect to such Common Stock. The investors in the private placement are entitled to liquidated damages in an amount equal to two percent (2%) of the purchase price of the Series B Preferred Stock if the Company fails to timely file that registration statement with, or have it declared effective by, the SEC. The Company has received a waiver from a majority of the Series B holders for the non-registration event and the timing of the Series B registration does not create a cross-default of the Series A Preferred Series.

Following the fifth anniversary of the initial closing, the holders of a majority of the Series B Preferred Stock, including NJTC (if it then holds 25% of the shares of Series B Preferred Stock initially purchased by it) may elect to require the Company to redeem all (but not less than all) of their shares of Series B Preferred Stock at the original purchase price for such shares plus all accrued and unpaid dividends whether or not declared, provided the market price of the Company's Common Stock is then below the conversion price of the Series B Preferred Stock.

Pursuant to the Certificate of Designation designating the Series B Preferred Stock, for so long as NJTC holds the Required Amount, NJTC is entitled to elect (i) two directors to the Company's Board of Directors, which shall initially consist of six members, and (ii) two members to the Company's compensation committee, which shall consist of at least three members. Within twelve months following the initial closing, the Company agreed to reduce the number of Directors on the Company's Board of Directors to five members. Following the initial closing, two affiliates of NJTC joined the Company's Board of Directors and compensation committee pursuant to the foregoing provision.

The transaction documents entered into with the purchasers of the Series B Preferred Stock also provide for various penalties and fees for breaches or failures to comply with provisions of those documents, such as the timely payment of dividends, delivery of stock certificates upon conversion of the Series B Preferred Stock or exercise of the warrants, and obtaining and maintaining an effective registration statement with respect to the shares of Common Stock underlying the Series B Preferred Stock and warrants sold in the offering.

In accordance with accounting standards governing debt with conversion and other options, the Company allocates the proceeds associated with the issuance of preferred stock based on the relative fair value of the preferred stock and warrants. Additionally, the Company evaluates if the embedded conversion option results in a beneficial conversion feature by comparing the relative fair value allocated to the preferred stock to the market value of the underlying common stock subject to conversion. The value assigned to the warrants resulting from the relative fair value calculation as well as the value of the beneficial conversion feature is recorded as a preferred stock dividend and is presented in the consolidated statements of operations. In addition, the Company considers the guidance of accounting for derivative financial instruments indexed to, and potentially settled in, a company's own common stock, and accounting for derivative instruments and hedging activities and concluded that the conversion feature embedded in the preferred stock only provides for physical settlement and there are no net settlement features. Accordingly, the Company has concluded that the conversion feature is not considered a derivative.

During the years ended December 31, 2010 and 2009, the Company issued 6,232.81 and 5,860.22 shares of Series B Preferred Stock respectively as payment of stock dividends at the stated value of $100.00 per share. The fair value of the non-cash stock dividends for the years ended December 31, 2010 and 2009 amounted to $2,008,882 and $586,022, respectively.

Determination of Stock Dividend Fair Value

Effective January 1, 2010 the Company has changed its basis for estimating the fair value of the preferred stock dividends from the underlying conversion prices of the Series A and Series B Preferred Stock, to a five day volume weighted average price of actual closing market prices for the Company's Common Stock. The financial effect of this change in estimating the fair market value resulted in an increase of approximately $1,502,000 in the non-cash charge taken for Series A and Series B preferred stock dividends for the year ended December 31, 2010.

Common Stock

Our certificate of incorporation authorizes the issuance of up to 500,000,000 shares of common stock with a par value of $0.001 per share of common ("Common Stock").

In May 2010, the Company executed a purchase agreement, or the Purchase Agreement, and a registration rights agreement, or the Registration Rights Agreement, with Lincoln Park Capital Fund, LLC ("LPC"). Under the Purchase Agreement, LPC is obligated, under certain conditions, to purchase from the Company up to $6 million of our Common Stock, from time to time over a 750 day (twenty-five (25) monthly) period.

The Company has the right, but not the obligation, to direct LPC to purchase up to $6,000,000 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 Purchase Agreement without any fixed discount. The Company may at any time at its sole discretion terminate the Purchase Agreement without fee, penalty or cost upon one business days notice.

The Company issued 1,153,846 shares of our Common Stock to LPC as a commitment fee for entering into the agreement, and is obligated to issue up to an additional 1,153,846 shares pro rata as LPC purchases up to $6,000,000 of its Common Stock as directed by the Company. LPC may not assign any of its rights or obligations under the Purchase Agreement. During the year ended December 31, 2010 the Company sold a total of 7,174,186 shares of Common Stock per the terms of the Purchase Agreement with LPC at an average price of approximately $0.105 per share of Common. Per the terms of the Purchase Agreement the Company also issued an additional 144,225 shares of Common Stock as additional Commitment Fee shares. The fair value of the Commitment shares have been recorded as a cost of raising capital.

Stock Option Plans

As of December 31, 2010, the Company had a Long Term Incentive Plan ("2006 Plan") to attract, retain, and provide incentives to employees, officers, directors, and consultants. The Plan generally provides for the granting of stock, stock options, stock appreciation rights, restricted shares, or any combination of the foregoing to eligible participants.

A total of 40,000,000 shares of common stock are reserved for issuance under the 2006 Plan. As of December 31, 2010 there were outstanding options to purchase approximately 38,865,000 shares of common stock reserved under the plan. Additionally, as of December 31, 2010 there were options to purchase approximately 890,000 shares of Common Stock that were issued outside of the 2006 Plan. The Company may increase the shares in the 2006 Plan as needed to maintain the pool with 15% of the shares outstanding on a fully diluted basis.

The 2006 Plan as well as grants issued outside of the Plan are administered by the Board of Directors. The Board is authorized to select from among eligible employees, directors, advisors and consultants those individuals to whom incentives are to be granted and to determine the number of shares to be subject to, and the terms and conditions of the options. The Board is also authorized to prescribe, amend and rescind terms relating to options granted under the Plans. Generally, the interpretation and construction of any provision of the Plans or any options granted hereunder is within the discretion of the Board.

The Plan provides that options may or may not be Incentive Stock Options (ISOs) within the meaning of Section 422 of the Internal Revenue Code. Only employees of the Company are eligible to receive ISOs, while employees and non-employee directors, advisors and consultants are eligible to receive options, which are not ISOs, i.e. "Non-Qualified Options." Because the Company has not yet obtained shareholder approval of the 2006 Plan, all options granted thereunder to date are "Non-Qualified Options" and until such shareholder approval is obtained, all future options issued under the 2006 Plan will also be "Non-Qualified Options."

Stock-based Compensation

Total share-based employee, director, and consultant compensation for the years ended December 31, 2010 and 2009 amounted to approximately $149,000 and $237,000, respectively. These amounts are included in the statement of operations under the captions research and development ($65,000 and $109,000) and general and administrative ($84,000 and $128,000), respectively.

The summary of the stock option activity for the years ended December 31, 2010 and 2009 is as follows:

	Shares	Weighted Average Exercise per Share	Weighted Average Remaining Contractual Life (Years)
Outstanding January 1, 2009	18,158,846	$ 1.05	9.1
Granted	5,418,858	0.125	9.0
Cancelled	—	—	—
Exercised	—	—	—
Outstanding, December 31, 2009	23,577,704	0.84	8.3
Granted	16,321,000	0.143	9.3
Cancelled	143,591	31.48	—
Exercised	—	—	—
Outstanding, December 31, 2010	39,755,113	$ 0.44	8.2

The weighted-average grant date fair value for options granted during the years ended December 31, 2010 and 2009 amounted to approximately $0.053 and $0.003 per share, respectively. As of December 31, 2010 the Company's outstanding options had exercise prices ranging from $0.035 to $41.47 per share of Common Stock.

At December 31, 2010, the aggregate intrinsic value of options outstanding and options currently exercisable amounted to approximately $1,432,000. As of December 31, 2010, the Company had options currently exercisable into an aggregate total of 21,959,969 shares of common stock which have a weighted average exercise price of $0.69 per share.

The summary of the status of the Company's non-vested options for the year ended December 31, 2010 is as follows:

	Shares	Weighted Average Grant Date Fair Value
Non-vested, January 1, 2010	6,801,053	$ 0.024
Granted	16,321,000	0.053
Cancelled	—	—
Vested	(5,326,909)	0.039
Exercised	—	—
Non-vested, December 31, 2010	17,795,144	$ 0.047

As of December 31, 2010, approximately $810,000 of total unrecognized compensation cost related to stock options is expected to be recognized over a weighted average period of 0.98 years. Due to the uncertainty over whether certain 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 year ended December 31, 2010. 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.

The Company has reserved a separate pool of 15.6 million shares of restricted stock that may be issued to employees and directors as part of a long term incentive plan tied to corporate objectives. As of December 31, 2010, none of these shares have been issued and due to the uncertainty over whether they will be issued, no charge for these shares has been recorded in the consolidated statement of operations for the year ended December 31, 2010.

As of December 31, 2010, the Company has the following warrants to purchase common stock outstanding:

Number of Shares To be Purchased	Warrant Exercise Price per Share		Warrant Expiration Date
816,691	$	4.98	June 30, 2011
1,200,000	$	0.90	June 30, 2011
900,000	$	0.40	June 30, 2011
52,080	$	2.00	July 31, 2011
339,954	$	2.00	September 30, 2011
400,000	$	0.40	October 31, 2011
3,986,429	$	0.035	June 25, 2013
397,825	$	0.0362	September 30, 2014
5,772,500	$	0.10	August 16, 2015
1,954,500	$	0.125	August 16, 2015
1,628,750	$	0.15	August 16, 2015
490,000	$	0.10	October 22, 2015
196,000	$	0.125	October 22, 2015
163,333	$	0.15	October 22, 2015
800,000	$	0.10	November 2, 2015
320,000	$	0.125	November 2, 2015
266,667	$	0.15	November 2, 2015
500,000	$	0.10	November 19, 2015
200,000	$	0.125	November 19, 2015
166,667	$	0.15	November 19, 2015
240,125	$	1.25	October 24, 2016
20,791,521			

As of December 31, 2010, the Company has the following warrant to purchase Series A Preferred Stock outstanding:

Number of Shares to be Purchased	Warrant Exercise Price per Preferred Share	Warrant Expiration Date
525,000	$ 1.00	June 30, 2011

If the holder of warrants for preferred stock exercises in full, the holder will receive additional 5 year warrants to purchase a total of 210,000 shares of common stock at $0.40 per share.

10. NET LOSS PER SHARE

Basic earnings per share and diluted earnings per share for the years ended December 31, 2010 and 2009 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 60,546,634 and 44,410,042 incremental shares at December 31, 2010 and 2009, respectively, as well as shares issuable upon conversion of Series A & B Convertible Preferred Stock and Preferred Stock Warrants representing 185,838,147 and 214,993,901 incremental shares at December 31, 2010 and 2009, respectively, as well as potential shares issuable upon Promissory Note conversion into Common Stock representing approximately 13,352,500 and -0- shares at December 31, 2010 and 2009, respectively, and have been excluded from the computation of diluted loss per share as they are anti-dilutive.

11. SUBSEQUENT EVENTS

The Company has evaluated subsequent events occurring after the balance sheet date which include the following:

During February 2011 a total of 196,000 shares of Series A Preferred Stock were converted into 980,000 shares of Common Stock.

During February 2011 a total of 7.42 shares of Series B Preferred Stock were converted into 20,497 shares of Common Stock.

During February 2011 a total of $691,841 of principal and accrued interest of Convertible Notes were converted into 6,918,411 shares of Common Stock.

During February 2011 pursuant to a cashless exercise, the Company issued an aggregate total of 2,437,486 shares of Common Stock for the full exercise of a warrant to purchase 886,250 shares of Common Stock at an exercise price of $0.10 per share of Common, and the full exercise and conversion of a warrant to purchase 525,000 shares of Series A Preferred Stock at an exercise price of $1.00 per share of Preferred that were convertible into Common Stock at a rate of $0.10 per share.

In February 2011 the Company issued Promissory Notes in the principal amount of $1,250,000, which accrue interest at the rate of 8% per annum. Per the terms of the Note, the investors will be repaid in equity of the Company, not cash. During the term of the Notes, investors may at any time convert outstanding principal and interest into Common Stock of the Company at a rate of $0.10 per share. In addition, during the term of the Note, should the Company complete any subsequent financing, debt or equity, in an aggregate amount greater or equal to $750,000, which includes any equity component or the right to convert into equity, the investor shall have the option to exchange any outstanding principal and interest of the Note into the new financing. Pursuant to the terms of the Promissory Note, the note holder will receive 100% warrant coverage in the form of five year warrants to purchase that number of shares of common stock as follows: that number of shares of Common Stock equal to the quotient obtained by dividing (x) 50% of the Principal, by (y) $0.10, with the resulting number of shares having an exercise price equal to $0.10 per share of Common Stock, plus that number of shares of Common Stock equal to the quotient obtained by dividing (x) 25% of the Principal, by (y) $0.125, with the resulting number of shares having an exercise price equal to $0.125 per share of Common Stock, plus that number of shares of Common Stock equal to the quotient obtained by dividing (x) 25% of the Principal, by (y) $0.15, with the resulting number of shares having an exercise price equal to $0.15 per share of Common Stock. The warrants have a cashless exercise provision. If during the term of the Note, and as long as the Note investor continues to own an outstanding balance of the Note, the Company has an equity financing of less than $750,000 that values the Company on a pre-money basis at or below $35 million on a fully-diluted basis, the Note investor will have a right of first refusal to participate in the financing per the terms of the Note. The Promissory Notes do not have registration rights for the shares underlying the notes or warrants.

During January and February 2011, the Company received approximately $775,000 as proceeds from the sale of 6,232,803 shares of Common Stock per the terms of the Purchase Agreement with LPC (See Note 9) at an average price of $0.124 per share of Common. Per the terms of the Purchase Agreement the Company also issued an additional 149,034 shares of Common Stock as additional Commitment Fee shares.

During March 2011, the Company successfully completed its technical file review with its Notified Body, and has received approval to apply the CE Mark to the CytoSorbTM device as an extracorporeal cytokine filter.

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements.

CYTOSORBENTS CORPORATION
(a development stage company)

CONSOLIDATED BALANCE SHEETS

	September 30, 2011 (Unaudited)	December 31, 2010
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 2,296,147	$ 1,055,669
Inventories	186,339	—
Prepaid expenses and other current assets	33,516	344,536
Total current assets	2,516,002	1,400,205
Property and equipment - net	144,576	144,146
Other assets	273,857	267,575
Total long-term assets	418,433	411,721
Total Assets	$ 2,934,435	$ 1,811,926
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current Liabilities:		
Accounts payable	$ 784,357	$ 817,701
Accrued expenses and other current liabilities	566,212	401,418
Convertible notes payable, net of debt discount in the amount of $11,985 at September 30, 2011 and $-0- at December 31, 2010	238,015	—
Total current liabilities	1,588,584	1,219,119
Long Term Liabilities:		
Convertible notes payable, net of debt discount in the amount of $688,182 at September 30, 2011 and $257,862 at December 31, 2010	224,818	1,077,388
Total long term liabilities	224,818	1,077,388
Total liabilities	1,813,402	2,296,507
Stockholders’ Equity (Deficit):		
10% Series B Preferred Stock, Par Value $0.001, 200,000 shares authorized at September 30, 2011 and December 31, 2010, respectively; 65,647.38 and 60,973.11	66	61

shares issued and outstanding, respectively		
10% Series A Preferred Stock, Par Value $0.001, 12,000,000 shares authorized at September 30, 2011 and December 31, 2010, respectively; 1,411,864 and 5,826,409 shares issued and outstanding, respectively	1,412	5,826
Common Stock, Par Value $0.001, 500,000,000 shares authorized at September 30, 2011 and December 31, 2010, 172,283,058 and 122,838,411 shares issued and outstanding, respectively	172,283	122,838
Additional paid-in capital	91,575,243	83,375,544
Deficit accumulated during the development stage	(90,627,971)	(83,988,850)
Total stockholders' equity (deficit)	1,121,033	(484,581)
Total Liabilities and Stockholders' Equity (Deficit)	$ 2,934,435	$ 1,811,926

See accompanying notes to consolidated financial statements.

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CYTOSORBENTS CORPORATION
(a development stage company)

CONSOLIDATED STATEMENTS OF OPERATIONS

	Period from January 22,1997 (date of inception) to September 30, 2011 (Unaudited)	Nine months ended September 30, 2011 (Unaudited)	Nine months ended September 30, 2010 (Unaudited)	Three months ended September 30, 2011 (Unaudited)	Three months ended September 30, 2010 (Unaudited)
Revenue	$ —	$ —	$ —	$ —	$ —
Expenses:					
Research and development	50,404,666	2,393,573	1,560,146	779,589	526,043
Legal, financial and other consulting	7,875,714	260,475	242,604	93,703	42,226
General and administrative	24,640,571	814,287	620,061	352,393	212,388
Change in fair value of management and incentive units	(6,055,483)	—	—	—	—
Total expenses	76,865,468	3,468,335	2,422,811	1,225,685	780,657
Other (income)/expenses:					
Gain on disposal of property and equipment	(21,663)	—	—	—	—
Gain on extinguishment of debt	(216,617)	—	—	—	—
Interest expense/(income), net	6,508,599	816,358	10,954	503,242	7,779
Penalties associated with non-registration of Series A Preferred Stock	361,495	—	—	—	—
Total other (income)/expense, net	6,631,814	816,358	10,954	503,242	7,779
Loss before benefit from income taxes	(83,497,282)	(4,284,693)	(2,433,765)	(1,728,927)	(788,436)
Benefit from income taxes	(547,318)	—	—	—	—
Net loss	(82,949,964)	(4,284,693)	(2,433,765)	(1,728,927)	(788,436)
Preferred Stock Dividend	7,678,007	2,354,428	1,596,801	734,857	401,750
Net Loss available to common shareholders	$ (90,627,971)	$ (6,639,121)	$ (4,030,566)	$ (2,463,784)	$ (1,190,186)
		$ (0.04)	$ (0.04)	$ (0.02)	$ (0.01)

Basic and diluted net loss per common share				
Weighted average number of shares of common stock outstanding	153,796,011	91,663,158	168,230,680	106,250,720

See accompanying notes to consolidated financial statements.

CYTOSORBENTS CORPORATION
(a development stage company)

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)

Period from
December 31, 2010 to
September 30, 2011
(Unaudited)

	Members Equity (Deficiency)	Deferred Compensation	Common Stock Shares	Common Stock Par value	Preferred Stock B Shares	Preferred Stock B Par Value	Preferred Stock A Shares	Preferred Stock A Par Value	Additional Paid-In Capital	Deficit Accumulated During the Development Stage	Stoc Equi
Balance at December 31, 2010	$—	$—	122,838,411	$122,838	60,973.11	$61	5,826,409	$5,826	$83,375,544	$(83,988,850)	$(4
Stock based compensation – employees, consultants and directors	—	—	—	—	—	—	—	—	508,069	—	50
Issuance of Series A Preferred Stock as dividends	—	—	—	—	—	—	230,866	231	66,613	(66,844)	—
Issuance of Series B Preferred Stock as dividends	—	—	—	—	4,687.45	5	—	—	2,287,579	(2,287,584)	—
Conversion of Series A and Series B into Common	—	—	11,115,042	11,115	(13.18)	—	(4,645,411)	(4,645)	(6,470)	—	—
Issuance of common stock for cash, net of cost of raising capital	—	—	17,335,942	17,336	—	—	—	—	2,626,431	—	2,
Conversion of convertible	—	—	14,833,310	14,833	—	—	—	—	1,468,497	—	1,

notes to common											
Relative fair value of warrants and beneficial conversion feature in connection with issuance of convertible note	—	—	—	—	—	—	—	—	1,250,000	—	1,
Cashless exercise of warrants	—	—	6,013,478	6,014	—	—	—	—	(6,014)	—	—
Exercise of stock options	—	—	146,875	147	—	—	—	—	4,994	—	5,
Net loss	—	—	—	—	—	—	—	—	—	(4,284,693)	(4
Balance at September 30, 2011	$—	$—	172,283,058	$172,283	65,647.38	$66	1,411,864	$1,412	$91,575,243	$90,627,971)	$1,

See accompanying notes to consolidated financial statements.

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CYTOSORBENTS CORPORATION
(a development stage company)

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Period from January 22,1997 (date of inception) to September 30, 2011 (Unaudited)	Nine months Ended September 30, 2011 (Unaudited)	Nine months ended September 30, 2010 (Unaudited)
Cash flows from operating activities:			
Net loss	$ (82,949,964)	$ (4,284,693)	$ (2,433,765)
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	2,455,487	45,222	13,258
Amortization of debt discount	1,856,638	807,695	6,851
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	2,147,594	508,069	108,594
Amortization of deferred compensation	74,938	—	—
Penalties in connection with non-registration event	361,496	—	—
Changes in operating assets and liabilities:			
Inventories	(186,339)	(186,339)	—
Prepaid expenses and other current assets	(305,064)	311,020	298,181
Other assets	(56,394)	—	—
Accounts payable and accrued expenses	3,067,999	79,437	197,795
Accrued interest expense	1,823,103	—	—
Net cash used by operating activities	(61,468,471)	(2,719,589)	(1,809,086)
Cash flows from investing activities:			
Proceeds from sale of property and equipment	32,491	—	—
Purchases of property and equipment	(2,400,404)	(34,116)	—
Patent costs	(479,558)	(17,818)	(23,068)
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	(4,479,639)	(51,934)	(23,068)
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	46,571,310	2,756,860	17,500
Proceeds from borrowings	11,188,881	1,250,000	977,250
Proceeds from exercise of stock options	5,141	5,141	—
Proceeds from subscription receivables	499,395	—	—
Net cash provided by financing activities	68,244,257	4,012,001	994,750
Net change in cash and cash equivalents	2,296,147	1,240,478	(837,404)
Cash and cash equivalents - beginning of period	—	1,055,669	1,595,628
Cash and cash equivalents - end of period	$ 2,296,147	$ 2,296,147	$ 758,224

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	$1,556,805	$1,250,000	$112,413
Fair value of shares issued as costs of raising capital	$335,950	$106,344	$—
Issuance of 6,013,478 shares of common stock pursuant to cashless exercise of warrants	$—	$—	$—
Note payable principal and interest conversion to equity	$11,917,649	$1,483,330	$—
Issuance of member units for leasehold improvements	$141,635	$—	$—
Issuance of management units in settlement of cost of raising capital	$437,206	$—	$—
Change in fair value of management units for cost of raising capital	$278,087	$—	$—
Exchange of loan receivable for member units	$1,632,168	$—	$—
Issuance of equity in settlement of accounts payable	$1,609,446	$—	$—
Issuance of common stock in exchange for stock subscribed	$399,395	$—	$—
Costs paid from proceeds in conjunction with issuance preferred stock	$768,063	$—	$—
Preferred stock dividends	$7,678,007	$2,354,428	$1,596,801
Net effect of conversion of common stock to preferred stock prior to merger	$559	$—	$—

During the nine months ended September 30, 2011 and 2010, 13.18 and 12,862.78 Series B Preferred Shares were converted into 36,408 and 35,532,542 Common shares, respectively. During the nine months ended September 30, 2011 and 2010, 4,645,411 and 819,563 Series A Preferred Shares were converted into 11,078,634 and 8,195,623 Common shares, respectively. For the period from January 22, 1997 (date of inception) to September 30, 2011, 20,625.31 Series B Preferred Shares and 9,555,109 Series A Preferred Shares were converted into 56,975,994 and 43,698,427 Common Shares, respectively.

See accompanying notes to consolidated financial statements.

CytoSorbents Corporation
Notes to Consolidated Financial Statements
(UNAUDITED)
September 30, 2011

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”), and CytoSorbents, Inc., its wholly-owned operating subsidiary (the “Subsidiary”), collectively referred to as “the Company.” Accordingly, certain information and footnote disclosures required in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. Interim statements are subject to possible adjustments in connection with the annual audit of the Company's accounts for the year ended December 31, 2011. 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 September 30, 2011 and the results of its operations and cash flows for the nine and three month periods ended September 30, 2011 and 2010, and for the period January 22, 1997 (date of inception) to September 30, 2011. Results for the nine 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, 2010 as included in the Company’s Form 10-K filed with the Commission on March 31, 2011.

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 September 30, 2011 of $90,627,971. 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. 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.

The Company is a development stage company and has not yet generated any revenues from inception to September 30, 2011. 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 29 issued and multiple pending patents, covering materials, methods of production, systems incorporating the technology and multiple medical uses.

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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. In March 2011, the Company received CE Mark approval for its CytoSorbTM device. As of September 30, 2011, 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, CytoSorbents Corporation, and its wholly-owned subsidiary, CytoSorbents, Inc. All significant intercompany transactions and balances have been eliminated in consolidation.

Development Stage Corporation
The accompanying consolidated financial statements have been prepared in accordance with the provisions of 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.

Inventories
Inventories are valued at the lower of cost or market. At September 30, 2011 and December 31, 2010 the Company's inventory was comprised of finished goods, which amounted to $42,240 and $-0-, respectively, and work in process which amounted to $144,099 and $-0-, 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.

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. Further, the Company currently has no open tax years which could be subject to audit prior to December 31, 2007.

The Company follows guidance associated with uncertain tax positions which requires that the Company determine whether it is more likely than not that a tax position will not be sustained upon examination by the appropriate taxing authority. If a tax position does not meet the more likely than not recognition criterion, the guidance requires that the tax position be measured at the largest amount of benefit greater than 50 percent not likely of being sustained upon ultimate settlement. Based on the Company's evaluation, management has concluded that there are no significant uncertain tax positions requiring recognition and has no income tax related penalties or interest in these consolidated 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.

3. CONVERTIBLE NOTES

During February 2011 the Company issued 24-month Promissory Notes in the aggregate principal amount of $1,250,000, which accrue interest at the rate of 8% per annum. Per the terms of the Promissory Notes issued in February, the investors will be repaid in equity of the Company, not cash. During the term of the Notes, investors may at any time convert outstanding principal and interest into Common Stock of the Company at a rate of $0.10 per share. In addition, during the term of the Note, should the Company complete any subsequent financing, debt or equity, in an aggregate amount greater or equal to $750,000, which includes any equity component or the right to convert into equity, the investor shall have the option to exchange any outstanding principal and interest of the Note into the new financing. Pursuant to the terms of the Promissory Note, the note holder will receive warrant coverage in the form of five year warrants to purchase that number of shares of common stock as follows: that number of shares of Common Stock equal to the quotient obtained by dividing (x) 50% of the Principal, by (y) $0.10, with the resulting number of shares having an exercise price equal to $0.10 per share of Common Stock, plus that number of shares of Common Stock equal to the quotient obtained by dividing (x) 25% of the Principal, by (y) $0.125, with the resulting number of shares having an exercise price equal to $0.125 per share of Common Stock, plus that number of shares of Common Stock equal to the quotient obtained by dividing (x) 25% of the Principal, by (y) $0.15, with the resulting number of shares having an exercise price equal to $0.15 per share of Common Stock. The warrants have a cashless exercise provision. If during the term of the Note, and as long as the Note investor continues to own an outstanding balance of the Note, the Company has an equity financing of less than $750,000 that values the Company on a pre-money basis at or below $35 million on a fully-diluted basis, the Note investor will have a right of first refusal to participate in the financing per the terms of the Note. The Promissory Notes do not have registration rights for the shares underlying the notes or warrants.

The Company allocates the proceeds associated with the issuance of promissory notes based on the relative fair value of the promissory notes and warrants. Additionally, the Company evaluates if the embedded conversion option results in a beneficial conversion feature by comparing the relative fair value allocated to the promissory notes to the market value of the underlying common stock subject to conversion. In connection with the promissory note issuances during the nine months ended September 30, 2011 the Company received total proceeds of $1,250,000. The Company allocated the total proceeds in accordance with FASB Codification Topic 470 based on the related fair value as follows: ($0) was allocated to the promissory notes and $466,432 to the warrants. Additionally, the embedded conversion feature resulted in a beneficial conversion feature in the amount of $783,568. The value assigned to the warrants resulting from the relative fair value calculation as well as the value of the beneficial conversion feature is recorded as a debt discount and is presented in the consolidated balance sheets. The debt discount is being amortized to interest expense over the term of the promissory notes. During the nine months ended September 30, 2011 Convertible Notes in the principal and accrued interest amount of $1,483,330 were converted into 14,833,310 Common shares resulting in a reduction of debt discount and charge to interest expense in the amount of $493,758.

4. STOCKHOLDERS' EQUITY (DEFICIT)

During the nine months ended September 30, 2011, the Company recorded non-cash stock dividends totaling $2,354,428 in connection with the issuance of 4,687.45 shares of Series B Preferred Stock and 230,866 shares of Series A Preferred Stock as a stock dividend to its preferred shareholders as of September 30, 2011.

During the nine months ended September 30, 2011, 13.18 Series B Preferred Shares were converted into 36,408 Common shares. During the nine months ended September 30, 2011, 4,645,411Series A Preferred Shares were converted into 11,078,634 Common shares.

During the nine months ended September 30, 2011, the Company incurred stock-based compensation expense due to the issuance of stock options, amortization of unvested stock options and the anticipated vesting of stock options based on satisfaction of certain contingent events. The aggregate expense for the nine months ended September 30, 2011 is $508,069 of which $246,262 and $261,807 is presented in research and development expenses and general and administrative expenses, respectively.

The Company has pre-approved options to purchase in the aggregate, up to a total of 408,000 shares of common stock to be issued and priced at the end of December 2011 to Directors. These options have been valued as of the pre-approval date. The aggregate expense of these options for the nine months ended September 30, 2011 is approximately $18,975, all of which is presented in general and administrative expenses.

The summary of the stock option activity for the nine months ended September 30, 2011 is as follows:

	Shares	Weighted Average Exercise Price per Share	Weighted Average Remaining Life (Years)
Outstanding, January 1, 2011	39,755,113	$0.44	8.2
Granted	290,000	$0.137	8.0
Cancelled	(64,800)	$31.52	—
Exercised	(146,875)	$0.035	—
Outstanding September 30, 2011	39,833,438	$0.39	7.4

The fair value of each stock option was valued using the Black Scholes pricing model which takes into account as of the grant date the exercise price (ranging from $0.136 to $0.138 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 27 percent), expected dividends (-0- percent) on the stock and the risk free interest rate (2.1 to 3.4 percent) for the term of the stock option.

At September 30, 2011, the aggregate intrinsic value of options outstanding and currently exercisable amounted to approximately $2,300,000.

The summary of the status of the Company's non-vested options for the nine months ended September 30, 2011 is as follows:

	Shares		Weighted Average Grant Date Fair Value
Non-vested, January 1, 2011	17,795,144	$	0.047
Granted	290,000	$	0.055
Cancelled	—		—
Vested	(6,175,144)	$	0.038
Non-vested, September 30, 2011	11,910,000	$	.051

As of September 30, 2011, approximately $330,000 of total unrecognized compensation cost related to stock options is expected to be recognized over a weighted average period of 0.35 years.

As of September 30, 2011, the Company has the following warrants to purchase common stock outstanding:

Number of Shares To be Purchased		Warrant Exercise Price per Share	Warrant Expiration Date
400,000	$	0.40	October 31, 2011
3,986,429	$	0.035	June 25, 2013
397,825	$	0.0362	September 30, 2014
1,750,000	$	0.100	August 16, 2015
1,600,000	$	0.125	August 16, 2015
1,333,333	$	0.15	August 16, 2015
490,000	$	0.10	October 22, 2015
196,000	$	0.125	October 22, 2015
163,333	$	0.15	October 22, 2015
625,000	$	0.10	November 2, 2015
250,000	$	0.125	November 2, 2015
208,334	$	0.15	November 2, 2015
500,000	$	0.10	November 19, 2015
200,000	$	0.125	

			November 19, 2015
166,667	$	0.15	November 19, 2015
240,125	$	1.25	October 24, 2016
5,500,000	$	0.10	February 15, 2016
2,200,000	$	0.125	February 15, 2016
1,833,333	$	0.15	February 15, 2016
22,040,379			

During the nine months ended September 30, 2011, pursuant to cashless exercises, the Company issued an aggregate total of 3,928,035 shares of Common Stock for the full exercise of warrants to purchase 6,275,750 shares of Common Stock at a exercise prices ranging from $0.10 to $0.15 per share of Common, and issued an additional 2,085,443 shares of Common Stock for the full exercise and subsequent conversion of a warrant to purchase 525,000 shares of Series A Preferred Stock at an exercise price of $1.00 per share of Preferred that were convertible into Common Stock at a rate of $0.10 per share.

During the nine months ended September 30, 2011 Convertible Notes in the principal and accrued interest amount of $1,483,330 were converted into 14,833,310 Common shares.

In May 2010, the Company executed a purchase agreement (the "Purchase Agreement") and a registration rights agreement with Lincoln Park Capital Fund, LLC ("LPC"). Under the Purchase Agreement, LPC is obligated, under certain conditions, to purchase from the Company up to $6 million of our Common Stock, from time to time over a 750 day (twenty-five (25) monthly) period.

The Company has the right, but not the obligation, to direct LPC to purchase up to $6,000,000 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 Purchase Agreement without any fixed discount. The Company may at any time at its sole discretion terminate the Purchase Agreement without fee, penalty or cost upon one business days notice. The Company issued 1,153,846 shares of our Common Stock to LPC as a commitment fee for entering into the agreement, and is obligated to issue up to an additional 1,153,846 shares pro rata as LPC purchases up to $6,000,000 of its Common Stock as directed by the Company. LPC may not assign any of its rights or obligations under the Purchase Agreement.

During the nine months ended September 30, 2011 the Company sold a total of 16,325,814 shares of Common Stock per the terms of the Purchase Agreement with LPC at an average price of approximately $0.18 per share of Common. Per the terms of the Purchase Agreement the Company also issued an additional 561,603 shares of Common Stock as additional Commitment Fee shares. The fair value of the Commitment shares have been recorded as a cost of raising capital.

5. COMMITMENTS AND CONTINGENCIES

Employment Agreements

The Company has employment agreements with certain key executives through December 2011. The agreements provide for annual base salaries of varying amounts.

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. The Company has not generated any revenue from this product and has not incurred any royalty costs through September 30, 2011. 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, CytoSorbents 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 September 30, 2011. The amount of future revenue subject to the license agreement could not be reasonably estimated nor has a liability been incurred, therefore, an accrual for royalty payments has not been included in the consolidated financial statements.

Warrant Agreement

As inducement to invest additional funds in the private placement of Series B Preferred Stock, additional consideration was granted to the participants of the Series B Preferred Stock offering in the event that litigation is commenced against 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 September 30, 2011 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 nine months ended September 30, 2011 and 2010 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 61,873,817 and 69,690,223 incremental shares at September 30, 2011 and 2010, respectively, as well as shares issuable upon conversion of Series A and Series B Preferred Stock representing 182,601,216 and 185,501,736 incremental shares at September 30, 2011 and 2010, respectively, as well as potential shares issuable upon Note conversion into Common Stock representing approximately 11,630,000 and 9,772,500 incremental shares at September 30, 2011 and 2010, 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.

During October 2011 a total of 1,810 shares of Series B Preferred Stock were converted into a total of 5,000,000 shares of Common Stock.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

These unaudited condensed consolidated financial statements and management's discussion should be read in conjunction with the audited financial statements of the Company and the notes thereto as of and for the year ended December 31, 2010 as included in the Company's Form 10-K filed with the Securities and Exchange Commission (the "Commission") on March 31, 2011.

Plan of Operations

We are a development stage company and expect to remain so for at least the next several quarters. CytoSorbents is a critical care focused company using blood purification to treat disease. In March 2011, we received European Union (E.U.) regulatory approval under the CE Mark and Medical Devices Directive for our flagship product, CytoSorb™, as an extracorporeal cytokine filter to be used in clinical situations where cytokines are elevated. In mid-September we started to exhibit the CytoSorb™ device at conferences in Germany as part of our product marketing under a controlled-market release in select geographic territories in Germany. Because of the limited nature of this initial release, we anticipate only modest sales until we expand our marketing efforts into the broader market.

Our CE Mark enables CytoSorb™ to be sold in the European Union for clinical use. Potential uses include many critical care conditions where cytokines are elevated such as sepsis, trauma, ARDS, severe burn injury and acute pancreatitis. CytoSorbents has 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. We intend to continue to research and seek the necessary regulatory approvals to sell our other proposed products, as well as potential label extensions of our current CE Mark.

We have completed the targeted enrollment in our European Sepsis clinical trial of one hundred (100) patients with sepsis and respiratory failure with the participation of fourteen trial sites. The purpose of the trial was to demonstrate safety and the broad, and statistically significant reduction of key cytokines such as IL-6 in these patients. Although the trial was not powered to demonstrate significant reduction in clinical endpoints such as mortality, these were included as secondary and exploratory endpoints in the trial. Taking into account all 100 patients, the treatment was well-tolerated with no serious device related adverse events reported in more than 300 human treatments in the trial. The first 22 patients in the study represented a sepsis pilot study. In the next 31 patients, a compromise of the manual randomization schedule at two trial sites led to an imbalance in the severity of illness between the control and treatment patient groups of the study. After a thorough review, the Scientific Advisory Board (SAB) and the independent Data Safety Monitoring Board (DSMB) both recommended that due to this enrollment bias, these 31 patients should only be used for safety evaluation purposes and that new patients should be enrolled into the trial using electronic web-based randomization to randomly assign patients into either the control or treatment arms. Excluding four patients that withdrew, the remaining forty three (43) patients enrolled under electronic randomization were relatively balanced in terms of the severity of illness in treatment and control patients, confirming the findings of the SAB and DSMB. In these forty three (43) patients the European Sepsis Trial successfully demonstrated, on a statistically significant basis ($p<0.05$), CytoSorb™'s ability to reduce circulating levels of key cytokines from whole blood in treated patients on the average of 30-50% over the 7 day treatment period. Additionally, post-hoc subgroup analyses of the clinical outcome data from patients enrolled under electronic randomization demonstrated statistically significant reduction in mortality in patients at high risk of death in sepsis, specifically in patients with very high cytokine levels (IL-6 $\geq$ 1,000 pg/mL and/or IL-1ra $\geq$ 16,000 pg/mL) where 28-day mortality was 0% treated vs 63% control, $p=0.03$, $n=14$ and patients $\geq$ age 65 (14-day mortality: 0% treated vs 36% control, $p=0.04$, $n=21$).

We are focusing our efforts on the commercialization of our CytoSorb™ product and have begun a controlled-marketing program in select territories in Germany. The initial major market focus for CytoSorb™ is the adjunctive treatment of sepsis, a systemic inflammatory response to a serious infection or traumatic event. 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 is currently manufacturing CytoSorb™ under ISO 13485 Full Quality Systems certification for sale in the E.U. and for additional clinical studies. Concurrent with its commercialization plans, the Company intends to conduct additional clinical studies in sepsis and other critical care diseases to generate additional clinical data to expand the scope of clinical experience for marketing purposes, to increase the number of treated patients, and to support potential future publications. Assuming availability of adequate and timely funding, and continued positive results from our clinical studies, the Company intends to continue commercializing its product in Europe.

The clinical protocol for our European Sepsis Trial was designed to allow us to gather information to support future U.S. studies. 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. Even though we have obtained CE Mark approval, there is no guarantee or assurance that we will be successful in obtaining FDA approval in the United States or approval in any other country or jurisdiction.

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

Our research and development costs were, $2,393,573 and $1,560,146, for the nine months ended September 30, 2011 and 2010 respectively and $779,589 and $526,043 for the three months ended September 30, 2011 and 2010. We have experienced substantial operating losses since inception. As of September 30, 2011, we had an accumulated deficit of $90,627,971, which included losses of $1,728,927 and $4,284,693 for the three and nine month periods ended September 30, 2011. In comparison, we had losses of $788,436 and $2,433,765 for the three and nine month periods ended September 30, 2010. 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 $1,131,982 and $3,207,860 for the three and nine month periods ended September 30, 2011 and $738,431 and $2,180,207 for the three and nine month periods ended September 30, 2010.

Liquidity and Capital Resources

Since inception, our operations have been financed through the private placement of our debt and equity securities. At December 31, 2010 we had cash of $1,055,669. As of September 30, 2011 we had cash on hand of $2,296,147, and current liabilities of $1,588,584.

We believe that we have sufficient cash to fund our operations into the first quarter of 2012, following which we will need additional funding before we can complete additional clinical studies and fully commercialize our products. Pursuant to a May 2010 funding agreement with Lincoln Park Capital Fund LLC (LPC), the Company filed a registration statement in June 2010, which was declared effective by the SEC. Pursuant to common stock sales to Lincoln Park Capital all of these registered shares have been issued. In December 2011 this agreement was mutually terminated. In December 2011 a new funding agreement was entered into with LPC. Subject to minimum pricing restrictions per the terms of the new funding agreement, Management believes that the Company will have the option to sell up to an approximate $8.5 million in common stock to LPC per the terms of this purchase agreement. The Company will need to file a registration statement and receive SEC approval of same before it can make common stock sales to Lincoln Park Capital under the new agreement. This capital has the potential to significantly extend the time that we may be able to fund our operations. We will continue to seek funding for the long term needs of the Company. There can be no assurance that we will be able to utilize the Lincoln Park funding agreement, or that additional 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.

CHANGES IN AND DISAGREEMENTS WITH ACCOUTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There have been no changes in or disagreements with our accountants on accounting or financial disclosure matters.

Directors and Executive Officers

The following table sets forth our directors and executive officers, their ages and the positions they hold:

Name	Age	Position
Phillip Chan, MD	42	President and Chief Executive Officer, Director
Al Kraus	67	Chairman of the Board
Joseph Rubin, Esq.	73	Director
Edward R. Jones, MD, MBA	62	Director
James Gunton	45	Director
Vincent Capponi	53	Chief Operating Officer
David Lamadrid	40	Chief Financial Officer
Robert Bartlett, MD	71	Chief Medical Officer

Phillip Chan, MD, PhD. Dr. Chan became a director of the Company in 2008 and since January 2009 is also Chief Executive Officer. Prior to CytoSorbents, Dr. Chan led healthcare and life science investments as Partner for the NJTC Venture Fund. Dr. Chan co-founded Andrew Technologies, a medical device company developing novel surgical instruments for plastic surgery. He is a Board-certified Internal Medicine physician with a strong background in clinical medicine and research. Dr. Chan received his MD and PhD from the Yale University School of Medicine and completed his Internal Medicine residency at Beth Israel Deaconess Medical Center at Harvard. He also holds a BS in cell and molecular biology from Cornell University.

Al Kraus. Mr. Kraus has been a director of the Company since 2003 and up until the end of 2008 was the Company’s President and CEO. Mr. Kraus currently serves as Chairman of the Board of Directors. Mr. Kraus has more than twenty-five years’ experience managing companies in the dialysis, medical device products, personal computer and custom software industries. Prior to joining us, from 2001 to 2003, Mr. Kraus was President and CEO of NovoVascular Inc., an early stage company developing coated stent technology. From 1996 to 1998, Mr. Kraus was President and CEO of Althin Healthcare and from 1998 to 2000, of Althin Medical Inc., a manufacturer of products for the treatment of end stage renal disease. While CEO of Althin, he provided strategic direction and management for operations throughout the Americas. From 1979 to 1985, Mr. Kraus was U.S. Subsidiary Manager and Chief Operating Officer of Gambro Inc., a leading medical technology and healthcare company. Mr. Kraus was the Chief Operating Officer of Gambro when it went public in the United States in an offering led by Morgan Stanley.

Joseph Rubin, Esq. Mr. Rubin became a director of the Company in 1997. Mr. Rubin is a founder and Senior Partner of, Rubin & Bailin, LLP an international and domestic corporate and commercial law firm in New York City, where he has practiced law since 1986. Mr. Rubin also taught at the Columbia University School of International and Public Affairs, where he is also Executive Director of the International Technical Assistance Program for Transforming Economies (ITAP). Mr. Rubin was Adjunct Professor at the Columbia University Graduate School of Business from 1973 to 1994, and taught at Columbia Law School in 1996. Mr. Rubin received his law degree from Harvard Law School, and his B.A., MIA, and M.Phil degrees in political science and international relations from Columbia University.

Edward R. Jones, MD, MBA. Dr. Jones has been a director of the Company since April 2007. Dr. Jones is an attending physician at the Albert Einstein Medical Center and Chestnut Hill Hospital as well as Clinical Professor of Medicine at Temple University Hospital. Dr. Jones has published or contributed to the publishing of 30 chapters, articles, and abstracts on the subject of treating kidney-related illnesses. He is a sixteen-year member of the Renal Physicians Association, the Philadelphia County Medical Society and a past board member of the National Kidney Foundation of the Delaware Valley. Dr. Jones is a past President of the Renal Physicians Association.

James Gunton. Mr. Gunton became a director of the Company in 2008. He is a cofounder of the NJTC Venture Fund. Mr. Gunton has been investing in privately-held growth technology companies for fifteen years. Before co-founding in 2001 the $80 million NJTC Venture Fund, Jim was a manager at Oracle Corporation in the Silicon Valley. He represents NJTC Venture Fund at nine portfolio companies and is a former Governor of the National Association of Small Business Investment Companies. Jim earned a BS from Stanford University and an MBA with distinction from Duke University.

Vincent Capponi. Mr. Capponi joined the Company as Vice President of Operations in 2002 and became its Chief Operating Officer in July 2005. He has more than 20 years of management experience in medical device, pharmaceutical and imaging equipment at companies including Upjohn, Sims Deltec and Sabratek. Prior to joining CytoSorbents in 2002, Mr. Capponi held several senior management positions at Sabratek and its diagnostics division GDS, and was interim president of GDS diagnostics in 2001. From 1998 to 2000, Mr. Capponi was Senior Vice President and Chief Operating Officer for Sabratek and Vice President Operations from 1996 to 1998. He received his MS in Chemistry and his BS in Chemistry and Microbiology from Bowling Green State University.

David Lamadrid. Mr. Lamadrid joined the Company as Vice President of Finance in 2000 and became its Chief Financial Officer in 2002. He has over 18 years of business experience in finance and operations. Prior to joining CytoSorbents in 2000, Mr. Lamadrid was a financial analyst at Chase Manhattan Bank working in the Middle Market Banking Group. Mr. Lamadrid received his MBA in Management and Finance from New York University, a BS in Finance from St. John's University, and an AAS in Accounting from S.U.N.Y. Rockland.

Robert Bartlett, MD. Dr. Bartlett became our Chief Medical Officer in January 2009. He is Professor Emeritus of Surgery at the University of Michigan Health System. Prior to becoming Professor Emeritus in 2005, Dr. Bartlett was Director of the Surgical Intensive Care Unit, Chief of the Trauma/Clinical Care Division and Director of the Extracorporeal Life Support Program at the University of Michigan Medical Center. Dr. Bartlett was the pioneer in the development of the extracorporeal membrane oxygenation machine (ECMO), used to oxygenate blood in critically ill patients worldwide. He received his MD from the University of Michigan Medical School, cum laude. He completed his general surgery residency at Peter Bent Brigham Hospital in Boston, and was Chief resident in thoracic surgery. Dr. Bartlett was also a NIH Trainee in Academic Surgery at Harvard Medical School, and was previously faculty at the University of California, Irvine. Dr. Bartlett is the recipient of 26 separate research grants, 14 from the National Institute of Health, including an RO1 grant for the development of a totally artificial lung. He has also received numerous national and international awards for his contributions to critical care medicine.

Audit Committee Financial Expert

We do not have an Audit Committee, and therefore do not have an “audit committee financial expert.”

EXECUTIVE COMPENSATION

Summary Compensation Table

The following table shows for the fiscal year ended December 31, 2010, compensation awarded to or paid to, or earned by, our Chief Executive Officer, our Chief Operating Officer, our Chief Financial Officer, and our Chief Medical Officer (the "Named Executive Officers").

Name and Principal Position	Year	Salary ($)		Bonus ($)	Option Awards (1) ($)		Total ($)
Phillip Chan							
Chief Executive Officer	2010	216,351		-0-	201,307	(2)	417,658
	2009	216,351		-0-	12,971	(3)	229,322
Vincent Capponi,							
Chief Operating Officer	2010	205,303		200	184,448	(4)	389,951
	2009	205,303		200	510	(5)	206,013
	2008	195,527		150	155,795	(6)	351,472
David Lamadrid,							
Chief Financial Officer	2010	189,086	(12)	200	164,418	(7)	353,704
	2009	189,992	(13)	200	510	(8)	190,702
	2008	157,630		150	196,555	(9)	354,335
Dr. Robert Bartlett							
Chief Medical Officer	2010	50,000		-0-	57,331	(10)	107,331
	2009	50,000		-0-	73	(11)	50,073

(1) The value of option awards granted to the Named Executive Officers has been estimated pursuant to recognition requirements of accounting standards for accounting for stock-based compensation for the options described in the footnotes below, except that for purposes of this table, we have assumed that none of the options will be forfeited. The Named Executive Officers will not realize the estimated value of these awards in cash until these awards are vested and exercised or sold. For information regarding our valuation of option awards, see "Stock-Based Compensation" in Note 2 of our financial statements for the period ended December 31, 2010.

(2) Reflects options to purchase 500,000 shares of Common Stock at an exercise price of $0.173 per share, which were granted on January 4, 2010 and expire on January 4, 2020. This option vested and became exercisable as to 100,000 shares on the date of grant, vested and became exercisable as to 100,000 shares on January 4, 2011, vests and becomes exercisable as to 100,000 shares on January 4, 2012, vests and becomes exercisable as to 100,000 shares on January 4, 2013, and vests and becomes exercisable as to 100,000 shares on January 4, 2014. Reflects options to purchase 3,350,000 shares of Common Stock at an exercise price of $0.138 per share, which were granted on May 5, 2010. The options granted on May 5, 2010 vest at the discretion of the Board of Directors based on criteria including (but not limited to) a timely completion of the sepsis trial, raising capital, and partnering and business development. As of the date of this filing, none of the options granted on May 5, 2010 have been approved for vesting by the Board of Directors.

(3) Reflects options to purchase 2,503,858 shares of Common Stock at an exercise price of $0.084 per share, which were granted on January 8, 2009 and expire on January 8, 2019. This option vested and became exercisable as to

1,251,929 shares on the date of grant, and vested and became exercisable as to 1,251,929 shares on January 8, 2010.

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(4) Reflects options to purchase 500,000 shares of Common Stock at an exercise price of $0.173 per share, which were granted on January 4, 2010 and expire on January 4, 2020. This option vested and became exercisable as to 100,000 shares on the date of grant, vested and became exercisable as to 100,000 shares on January 4, 2011, vests and becomes exercisable as to 100,000 shares on January 4, 2012, vests and becomes exercisable as to 100,000 shares on January 4, 2013, and vests and becomes exercisable as to 100,000 shares on January 4, 2014. Reflects options to purchase 3,000,000 shares of Common Stock at an exercise price of $0.138 per share, which were granted on May 5, 2010. The options granted on May 5, 2010 vest at the discretion of the Board of Directors based on criteria including (but not limited to) a timely completion of the sepsis trial, raising capital, and partnering and business development. As of the date of this filing, none of the options granted on May 5, 2010 have been approved for vesting by the Board of Directors.

(5) Reflects options to purchase 400,000 shares of Common Stock at an exercise price of $0.168 per share, which were granted on January 28, 2009 and expire on January 28, 2019. This option vested and became exercisable as to 100,000 shares on the date of grant, vested and became exercisable as to 100,000 shares on January 28, 2010, vests and becomes exercisable as to 100,000 shares on January 28, 2011, and vests and becomes exercisable as to 100,000 shares on January 28, 2012.

(6) Reflects options to purchase 1,100,000 shares of Common Stock at an exercise price of $0.25 per share, which were granted on January 16, 2008 and expire on January 16, 2018. This option vested and became exercisable as to 366,666 shares on the date of grant, vested and became exercisable as to 366,667 shares on January 16, 2009; and vested and became exercisable as to 366,667 shares on January 16, 2010. Reflects options to purchase 2,250,000 shares of Common Stock at an exercise price of $0.035 per share, which were granted on June 25, 2008 and expire on June 25, 2018. This option vested and became exercisable as to 562,500 shares on the date of grant, vested and became exercisable as to 562,500 shares on June 25, 2009, vests and becomes exercisable as to 562,500 shares on June 25, 2010, and vests and becomes exercisable as to 562,500 shares on June 25, 2011.

(7) Reflects options to purchase 400,000 shares of Common Stock at an exercise price of $0.173 per share, which were granted on January 4, 2010 and expire on January 4, 2020. This option vested and became exercisable as to 80,000 shares on the date of grant, vested and became exercisable as to 80,000 shares on January 4, 2011, vests and becomes exercisable as to 80,000 shares on January 4, 2012, vests and becomes exercisable as to 80,000 shares on January 4, 2013, and vests and becomes exercisable as to 80,000 shares on January 4, 2014. Reflects options to purchase 2,750,000 shares of Common Stock at an exercise price of $0.138 per share, which were granted on May 5, 2010. The options granted on May 5, 2010 vest at the discretion of the Board of Directors based on criteria including (but not limited to) a timely completion of the sepsis trial, raising capital, and partnering and business development. As of the date of this filing, none of the options granted on May 5, 2010 have been approved for vesting by the Board of Directors.

(8) Reflects options to purchase 400,000 shares of Common Stock at an exercise price of $0.168 per share, which were granted on January 28, 2009 and expire on January 28, 2019. This option vested and became exercisable as to 100,000 shares on the date of grant, vested and became exercisable as to 100,000 shares on January 28, 2010, vests and becomes exercisable as to 100,000 shares on January 28, 2011, and vests and becomes exercisable as to 100,000 shares on January 28, 2012.

(9) Reflects options to purchase 1,400,000 shares of Common Stock at an exercise price of $0.25 per share, which were granted on January 16, 2008 and expire on January 16, 2018. This option vested and became exercisable as to 466,667 shares on the date of grant, vested and became exercisable as to 466,667 shares on January 16, 2009; and vested and became exercisable as to 466,666 shares on January 16, 2010. Reflects options to purchase 2,750,000 shares of Common Stock at an exercise price of $0.035 per share, which were granted on June 25, 2008 and expire on June 25, 2018. This option vested and became exercisable as to 687,500 shares on the date of grant,

vested and became exercisable as to 687,500 shares on June 25, 2009, vests and becomes exercisable as to 687,500 shares on June 25, 2010, and vests and becomes exercisable as to 687,500 shares on June 25, 2011.

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(10) Reflects options to purchase 175,000 shares of Common Stock at an exercise price of $0.173 per share, which were granted on January 4, 2010 and expire on January 4, 2020. This option vested and became exercisable as to 35,000 shares on the date of grant, vested and became exercisable as to 35,000 shares on January 4, 2011, vests and becomes exercisable as to 35,000 shares on January 4, 2012, vests and becomes exercisable as to 35,000 shares on January 4, 2013, and vests and becomes exercisable as to 35,000 shares on January 4, 2014. Reflects options to purchase 900,000 shares of Common Stock at an exercise price of $0.138 per share, which were granted on May 5, 2010. The options granted on May 5, 2010 vest at the discretion of the Board of Directors based on criteria including (but not limited to) a timely completion of the sepsis trial, raising capital, and partnering and business development. As of the date of this filing, none of the options granted on May 5, 2010 have been approved for vesting by the Board of Directors.

(11) Reflects options to purchase 50,000 shares of Common Stock at an exercise price of $0.084 per share, which were granted on January 8, 2009 and expire on January 8, 2014. This option vested and became exercisable as to 12,500 shares on January 8, 2010, vested and became exercisable as to 12,500 shares on January 8, 2011; vests and becomes exercisable as to 12,500 shares on January 8, 2012, and vests and becomes exercisable as to 12,500 shares on January 8, 2013.

(12) Amount includes payments in the approximate amount of $14,086 for certain other expenses pursuant to an employment agreement.

(9) Amount includes payments in the approximate amount of $14,992 for certain other expenses pursuant to an employment agreement.

Outstanding Equity Awards at Fiscal Year End

The following table shows for the fiscal year ended December 31, 2010, certain information regarding outstanding equity awards at fiscal year-end for the Named Executive Officers.

Outstanding Equity Awards At December 31, 2010

	Option Awards				
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price ($)		Option Expiration Date
Phillip Chan	15,000		0.08	(1)	12/31/18
	2,503,858		0.084	(1)	1/8/19
	100,000	400,000	0.173	(2)	1/4/20
		3,350,000	0.138	(3)	5/5/20
Vincent Capponi	50,000		1.65	(1)	12/31/16
	1,100,000		0.25	(1)	01/16/18
	1,687,500	562,500	0.035	(4)	06/25/18
	200,000	200,000	0.168	(5)	01/28/19
	100,000	400,000	0.173	(6)	1/4/20
		3,000,000	0.138	(3)	5/5/20
David Lamadrid	150,000		1.90	(1)	01/16/17

	1,400,000		0.25	(1)	01/16/18
	2,062,500	687,500	0.035	(7)	06/25/18
	200,000	200,000	0.168	(8)	01/28/19
	80,000	320,000	0.173	(9)	1/4/20
		2,750,000	0.138	(3)	5/5/20
Robert Bartlett	12,500	37,500	0.084	(10)	01/08/14
	35,000	140,000	0.173	(11)	1/4/20
		900,000	0.138	(3)	5/5/20

(1) Fully vested

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(2) Vests and becomes exercisable as to (i) 100,000 shares on January 4, 2010; (ii) 100,000 shares on January 4, 2011; (iii) 100,000 shares on January 4, 2012; (iv) 100,000 shares on January 4, 2013; and (v) 100,000 shares on January 4, 2014.

(3) Vests and becomes exercisable at the discretion of the Board of Directors based on criteria including (but not limited to) a timely completion of the sepsis trial, raising capital, and partnering and business development. As of the date of this filing, none of these options have been approved for vesting by the Board of Directors.

(4) Vests and becomes exercisable as to (i) 562,500 shares on June 25, 2008; (ii) 562,500 shares on June 25, 2009; (iii) 562,500 shares on June 25, 2010; and (iv) 562,500 shares on June 25, 2011.

(5) Vests and becomes exercisable as to (i) 100,000 shares on January 28, 2009; (ii) 100,000 shares on January 28, 2010; (iii) 100,000 shares on January 28, 2011; and (iv) 100,000 shares on January 28, 2012.

(6) Vests and becomes exercisable as to (i) 100,000 shares on January 4, 2010; (ii) 100,000 shares on January 4, 2011; (iii) 100,000 shares on January 4, 2012; (iv) 100,000 shares on January 4, 2013; and (v) 100,000 shares on January 4, 2014.

(7) Vests and becomes exercisable as to (i) 687,500 shares on June 25, 2008; (ii) 687,500 shares on June 25, 2009; (iii) 687,500 shares on June 25, 2010; and (iv) 687,500 shares on June 25, 2011.

(8) Vests and becomes exercisable as to (i) 100,000 shares on January 28, 2009; (ii) 100,000 shares on January 28, 2010; (iii) 100,000 shares on January 28, 2011; and (iv) 100,000 shares on January 28, 2012.

(9) Vests and becomes exercisable as to (i) 80,000 shares on January 4, 2010; (ii) 80,000 shares on January 4, 2011; (iii) 80,000 shares on January 4, 2012; (iv) 80,000 shares on January 4, 2013; and (v) 80,000 shares on January 4, 2014.

(10) Vests and becomes exercisable as to (i) 12,500 shares on January 8, 2010; (ii) 12,500 shares on January 8, 2011; (iii)12,500 shares on January 8, 2012 and (iv) 12,500 shares on January 8, 2013.

(11) Vests and becomes exercisable as to (i) 35,000 shares on January 4, 2010; (ii) 35,000 shares on January 4, 2011; (iii) 35,000 shares on January 4, 2012; (iv) 35,000 shares on January 4, 2013; and (v) 35,000 shares on January 4, 2014.

Director Compensation

The following table shows for the fiscal year ended December 31, 2010 certain information with respect to the compensation of all non-employee directors of the Company.

Director Compensation for Fiscal 2010

Name	Fees Earned or Paid in Cash ($)	Option Awards ($) (1)		Total ($)
Joseph Rubin	8,000	5,987	(2)(3)	13,987

Edward R. Jones	8,000	5,987	(2)(4)	13,987
James Gunton (5)	—	—		—
Al Kraus	20,000	—	(6)	20,000
Phillip Chan (7)	—	—		—

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(1) The value of option awards granted to directors has been estimated pursuant to the recognition requirements of accounting standards for accounting for stock-based compensation for the options described in the footnotes below, except that for purposes of this table, we have assumed that none of the options will be forfeited. The directors will not realize the estimated value of these awards in cash until these awards are vested and exercised or sold. For information regarding our valuation of option awards, see “Stock-Based Compensation” in Note 2 of our financial statements for the period ended December 31, 2010.

(2) Fully vested

(3) In connection with his service as a director in 2010 we issued Mr. Rubin options to purchase 100,000 shares of our Common Stock at an exercise price of $0.134 per share, which were granted on December 31, 2010 and expire on December 31, 2020.

(4) In connection with his service as a director in 2010 we issued Dr. Jones options to purchase 100,000 shares of our Common Stock at an exercise price of $0.134 per share, which were granted on December 31, 2010 and expire on December 31, 2020.

(5) In connection with Mr. Gunton’s service as a director in 2010, the NJTC Venture Fund was entitled to receive options to purchase 108,000 shares of our Common Stock. These options were issued as follows: options to purchase 2,000 shares of our Common Stock at an exercise price of $0.154 per share, which were granted on March 31, 2010 and expire on March 31, 2020; options to purchase 2,000 shares of our Common Stock at an exercise price of $0.089 per share, which were granted on June 30, 2010 and expire on June 30, 2020; options to purchase 2,000 shares of our Common Stock at an exercise price of $0.09 per share, which were granted on September 30, 2010 and expire on September 30, 2020; and options to purchase 102,000 shares of our Common Stock at an exercise price of $0.134 per share, which were granted on December 31, 2010 and expire on December 31, 2020.

(6) Pursuant to an agreement and in connection with Mr. Kraus’ service as a director in 2010 we issued options to purchase 100,000 shares of our Common Stock at an exercise price of $0.166 per share, which were granted on December 31, 2009 and expire on December 31, 2019.

(7) Effective July 24, 2008, Dr. Chan was appointed to the Company’s Board of Directors and Compensation Committee. Effective January 1, 2009, Dr. Chan entered into an employment agreement becoming interim Chief Executive Officer of the Company. In January 2009, Dr. Chan resigned his position as a member on the Compensation Committee. During 2010 Dr. Chan was an employee Director and was not eligible to receive compensation for Director services.

In 2007, we approved arrangements under which each non-employee director receives a fee of $2,000 for each quarterly Board meeting attended in person and a fee of $1,000 for each quarterly Board meeting participated in by telephone. In addition, our Board approved a policy under which each non-employee director will be eligible to be issued options to purchase up to 10,000 shares of our Common Stock on December 31, 2007 based on attendance at quarterly Board meetings held during 2008. Such options will be exercisable in accordance with the Company’s option pricing policy on the date of grant. Our directors are also reimbursed for actual out-of-pocket expenses incurred by them in connection with their attendance at meetings of the Board of Directors.

In 2008, the Board approved the issuance to each non-employee director, with the exception of the Chairman, options to purchase up to 30,000 shares of Common Stock on December 31, 2008 based on attendance at quarterly Board meetings held during 2008.

In 2009, the Board approved the issuance to each non-employee director, with the exception of the Chairman, options to purchase up to 100,000 shares of Common Stock on December 31, 2009 based on attendance at quarterly Board meetings held during 2009.

In connection with his appointment as Chairman of the Board in January 2009, we agreed to compensate Mr. Kraus at the rate of $20,000 per annum, and on January 8, 2009 we issued Mr. Kraus a ten year option to purchase 200,000 shares of our Common Stock at a price of $0.084 per share. In December 2009 we issued Mr. Kraus an additional option to purchase 100,000 shares of Common Stock at an exercise price of $0.166 per share. Additionally for services performed as Chief Executive Office of the company through December 31, 2008, the Board approved a 10 year option to purchase 450,000 shares of our Common Stock at a price of $0.168 per share on January 28, 2009. In January 2011, we renewed the agreement with Al Kraus, as Chairman of the Board of Directors for an additional two year term period.

In 2010, the Board approved the issuance to each non-employee director, with the exception of the Chairman, options to purchase up to 100,000 shares of Common Stock to be issued on December 31, 2010 based on attendance at quarterly Board meetings held during 2010. For the Chairman, the Board approved the issuance of options to purchase up to 125,000 shares of Common Stock to be issued on December 31, 2010 based on attendance at quarterly Board meeting held during 2010.

Employment Agreements with Named Executive Officers

Phillip Chan

Effective June 15, 2011, we renewed the employment agreement by and between Dr. Phillip Chan and the Company as Chief Executive Officer retroactive to January 1, 2011. Per the terms of the agreement, we agree to pay Phillip Chan an annual base compensation of $231,496 payable in equal semimonthly installments in accordance with our usual practice. This base compensation shall be subject to review by our Compensation Committee, but his compensation may not be reduced from then current level. He is eligible for employee stock options, which will be adjusted on the same basis as all other shareholders to account for any stock split, stock dividends, combination or recapitalization.

Vincent Capponi

Effective June 15, 2011, we renewed the employment agreement by and between Vincent Capponi and the Company as Chief Operating Officer retroactive to January 1, 2011. Per the terms of the agreement, we agree to pay Vincent Capponi an annual base compensation of $219,674 payable in equal semimonthly installments in accordance with our usual practice. This base compensation shall be subject to review by our Compensation Committee, but his compensation may not be reduced from then current level. He is eligible for employee stock options, which will be adjusted on the same basis as all other shareholders to account for any stock split, stock dividends, combination or recapitalization.

David Lamadrid

Effective June 15, 2011, we renewed the employment agreement by and between David Lamadrid and the Company as Chief Financial Officer retroactive to January 1, 2011. Per the terms of the agreement, we agree to pay David

Lamadrid an initial annual base compensation of $187,250 payable in equal semimonthly installments in accordance with our usual practice. This base compensation shall be subject to review by our Compensation Committee. He is eligible for employee stock options, which will be adjusted on the same basis as all other shareholders to account for any stock split, stock dividends, combination or recapitalization.

Robert Bartlett

Effective June 15, 2011, we renewed the consulting agreement with Dr. Bartlett. Pursuant to this consulting agreement, we agree to pay Dr. Robert Bartlett consulting fees at an annualized rate of $52,000 payable in equal monthly installments of $4,333.33 per month. He is eligible for stock options, which will be adjusted on the same basis as all other shareholders to account for any stock split, stock dividends, combination or recapitalization.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Joseph Rubin is a director of ours and performs legal services for us from time to time. At December 31, 2010, we owed Mr. Rubin's firm approximately $19,200 in respect of legal services provided by his firm to us.

Director Independence

All members of our Board of Directors, other than Joseph Rubin, who performs legal services for us as disclosed above, Al Kraus, formerly an employee, and Phillip Chan, our Chief Executive Officer, are independent under the standards set forth in Nasdaq Marketplace Rule 4200(a)(15).

PRINCIPAL STOCKHOLDERS

The following table sets forth information known to us with respect to the beneficial ownership of Common Stock held of record as of March 31, 2011, by (1) all persons who are owners of 5% or more of our Common Stock, (2) each of our named executive officers (see "Summary Compensation Table"), (3) each director, and (4) all of our executive officers and directors as a group. Each of the stockholders can be reached at our principal executive offices located at 7 Deer Park Drive, Suite K, Monmouth Junction, New Jersey 08852.

	SHARES BENEFICIALLY OWNED1		
	Number	Percent (%)	
Beneficial Owners of more than 5% of Common Stock (other than directors and executive officers)			
	—	—	
Directors and Executive Officers			
Al Kraus(2)	10,244,501	6.9	%
Phillip Chan (3)	3,571,740	2.5	%
David Lamadrid (4)	4,076,234	2.8	%
Vince Capponi (5)	3,755,586	2.6	%
Joseph Rubin (6)	1,113,514	*	
Robert Bartlett (7)	95,000	*	

James Gunton (8)	15,000	*	
Edward R. Jones (9)	282,500	*	
All directors and executive officers as a group (eight persons)(10)	23,154,075	14.4	%

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* Less than 1%.

1 Gives effect to the shares of Common Stock issuable upon the exercise of all options exercisable within 60 days of March 31, 2011 and other rights beneficially owned by the indicated stockholders on that date. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and includes voting and investment power with respect to shares. Unless otherwise indicated, the persons named in the table have sole voting and sole investment control with respect to all shares beneficially owned. Percentage ownership is calculated based on 139,576,642 shares of Common Stock outstanding as of March 31, 2011.

2 Includes 8,850,870 shares of Common Stock issuable upon exercise of stock options.

3 Includes 666,215 shares of Common Stock issuable upon conversion of Series B Preferred Stock, 100,000 shares of Common Stock issuable upon conversion of Convertible Note, and 2,805,525 shares of Common Stock issuable upon exercise of warrants and stock options.

4 Includes 4,072,500 shares of Common Stock issuable upon exercise of stock options.

5 Includes 3,337,500 shares of Common Stock issuable upon exercise of stock options.

6 Includes 3,044 shares of Common Stock issuable upon conversion of Series A Preferred Stock, 461,464 shares of Common Stock issuable upon conversion of Series B Preferred Stock, and 566,742 shares of Common Stock issuable upon exercise of warrants and stock options. Does not include shares of Common Stock beneficially owned by Mr. Rubin's spouse, as to which he disclaims beneficial ownership.

7 These shares are issuable upon exercise of stock options.

8 These shares are issuable upon exercise of stock options.

9 These shares are issuable upon exercise of stock options.

10 Includes an aggregate of 3,044 shares of Common Stock issuable upon conversion of Series A Preferred Stock, 1,127,679 shares of Common Stock issuable upon conversion of Series B Preferred Stock, 100,000 shares of Common Stock issuable upon conversion of Convertible Notes, and 20,025,637 shares of Common Stock issuable upon exercise of warrants and stock options.

EQUITY COMPENSATION PLAN INFORMATION

The following table summarizes outstanding options as of December 31, 2010, after giving effect to the merger and subsequent grants. The Registrant had no options outstanding prior to the merger, and all of the options below were issued either in connection with the merger to former option holders of CytoSorbents or subsequently as new grants to employees, directors, and consultants.

	Number of securities to be issued upon exercise of outstanding options	Weighted-average exercise price of outstanding options	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in first column)	
Equity compensation plans approved by stockholders	0	n/a	400,000	(1)

Equity compensation plans not approved by stockholders	39,755,113		$	0.44		244,887	(2)
Total	39,755,113	(3)	$	0.44	(3)	644,887	

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(1) Represents options that may be issued under our 2003 Stock Option Plan.

(2) Represents the unadjusted number of options that may be issued under our 2006 Long-Term Incentive Plan. The options available under the pool may be increased to maintain 15% of the fully diluted share count as needed.

(3) Represents options to purchase (i) 118,667 shares of Common Stock at a price of $41.47 per share, (ii) 88,912 shares of Common Stock at a price of $31.52 per share, (iii) 35,488 shares of Common Stock at a price of $21.57 per share, (iv) 15,492 shares of Common Stock at a price of $19.91 per share, (v) 439,740 shares of Common Stock at a price of $6.64 per share, (vi) 173,000 shares of Common Stock at a price of $1.90 per share, (vii) 306,000 shares of Common Stock at a price of $1.65 per share, (viii) 400,000 shares of Common Stock at a price of $1.26 per share, (ix) 166,756 shares of Common Stock at a price of $1.25 per share, (x) 3,014,000 shares of Common Stock at a price of $0.25, (xi) 137,622 shares of Common Stock at a price of $0.22, (xii) 2,530,000 shares of Common Stock at a price of $0.173, (xiii) 2,365,000 shares of Common Stock at a price of $0.168, (xiv) 408,000 shares of Common Stock at a price of $0.166, (xv) 5,000 shares of Common Stock at a price of $0.159, (xvi) 2,000 shares of Common Stock at a price of $0.154, (xvii) 35,000 shares of Common Stock at a price of $0.143, (xviii) 13,300,000 shares of Common Stock at a price of $0.138, (xix) 302,000 shares of Common Stock at a price of $0.134, (xx) 30,000 shares of Common Stock at a price of $0.097, (xxi) 2,000 shares of Common Stock at a price of $0.09, (xxii) 7,000 shares of Common Stock at a price of $0.089, (xxiii) 2,753,858 shares of Common Stock at a price of $0.084, (xxiv) 115,000 shares of Common Stock at a price of $0.08, and (xxv) 13,004,578 shares of Common Stock at a price of $0.035.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and current reports and other information with the SEC. You may read and copy any reports, statements or other information we file at the SEC's public reference rooms in Washington D.C., New York, New York and Chicago, Illinois. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. Our filings are also available to the public from commercial document retrieval services and at the web site maintained by the SEC at http://www.sec.gov.

We have filed a registration statement on Form S-1 under the Securities Act with the SEC covering the Common Stock to be offered by the selling stockholders. As permitted by the rules and regulations of the SEC, this document does not contain all information set forth in the registration statement and exhibits thereto, all of which are available for inspection as set forth above. For further information, please refer to the registration statement, including the exhibits thereto. Statements contained in this document relating to the contents of any contract or other document referred to herein are not necessarily complete, and reference is made to the copy of that contract or other document filed as an exhibit to the registration statement or other document, and each statement of this type is qualified in all respects by that reference.

No person is authorized to give any information or make any representation not contained in this document. You should not rely on any information provided to you that is not contained in this document. This prospectus does not constitute an offer to sell or a solicitation of an offer to purchase the securities described herein in any jurisdiction in which, or to any person to whom, it is unlawful to make the offer or solicitation. Neither the delivery of this document nor any distribution of shares of Common Stock made hereunder shall, under any circumstances, create any implication that there has not been any change in our affairs as of any time subsequent to the date hereof.

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 13. Other Expenses of Issuance and Distribution.

The estimated expenses of this offering in connection with the issuance and distribution of the securities being registered, all of which are to be paid by the Registrant, are as follows:

Registration Fee	$635.90
Legal Fees and Expenses	$7,500.00
Accounting Fees and Expenses	$3,000.00
Printing	
Miscellaneous Expenses	
Total	$11,135.90

Item 14. Indemnification of Directors and Officers.

Our directors and officers are indemnified as provided by the Nevada Revised Statutes and our bylaws. We have been advised that in the opinion of the Securities and Exchange Commission indemnification for liabilities arising under the Securities Act of 1933 is against public policy as expressed in the Securities Act of 1933, and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities is asserted by one of our directors, officers, or controlling persons in connection with the securities being registered, we will, unless in the opinion of our legal counsel the matter has been settled by controlling precedent, submit the question of whether such indemnification is against public policy to a court of appropriate jurisdiction. We will then be governed by the court's decision.

Item 15. Recent Sales of Unregistered Securities.

On June 25, 2008, we sold (i) 44,531.47 shares of our Series B Preferred Stock, at a price of $100 per share and (ii) a security (the " Additional Security ") to purchase additional shares of Series B Preferred Stock within 15 months following the Initial Closing at $100 per share, to a group of ten accredited investors led by NJTC Venture Fund SBIC, L.P. (" NJTC "). On August 25, 2008, we sold 8,400 shares of our Series B Preferred Stock, at a price of $100 per share to a group of seven accredited investors. The 52,931.47 shares of Series B Preferred Stock are initially convertible into 146,219,530 shares our common stock, par value $.001 per share ("Common Stock"). In addition, in connection with the private placement, $50,000 in principal amount of indebtedness plus accrued interest was converted into 576.05 additional shares of Series B Preferred Stock.

In October 2009, investors exercised warrants to purchase 13,357.52 shares of our Series B Preferred Stock, at a price of $100 per share.

In January 2010 the Company issued a 12-month Promissory Note in the principal amount of $172,500, which bears interest at the rate of 5% per annum.

On August 18, 2010, the Company issued Convertible Notes to certain accredited investors in the aggregate principal amount of $800,000 which bear interest at the rate of 8% per annum and mature on August 18, 2012.

On February 15, 2011, the Company, issued Convertible Notes to certain accredited investors in the aggregate principal amount of $1,250,000 which bear interest at the rate of 8% per annum and mature on February 15, 2013.

These securities were issued in a private offering exempt from registration pursuant to Section 4(2) and Regulation D (Rule 506) under the Securities Act of 1933, as amended (the " Securities Act ").

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Item 16. Exhibits.

The following exhibits are filed as part of, or incorporated by reference into this document:

Exhibit No.	Description
3.1	Certificate of Amendment to Articles of Incorporation dated February 17, 2010.
4.1	Form of Purchase Agreement, dated December 8, 2011, by and among CytoSorbents Corporation and Lincoln Park Capital Fund, LLC (incorporated by reference to Exhibit 10.1 on Registrant's Current Report on Form 8-K, filed on December 9, 2011).
4.2	Form of Registration Rights Agreement, dated December 8, 2011 by and among CytoSorbents Corporation and Lincoln Park Capital Fund, LLC (incorporated by reference to Exhibit 10.2 on Registrant's Current Report on Form 8-K, filed on December 9, 2011).
5.1	Legal Opinion of Anslow & Jaclin, LLP filed herewith.
23.1	Consent of WithumSmith + Brown, PC
23.2	Consent of Anslow & Jaclin, LLP refer to exhibit 5.1

Item 17. Undertakings.

The undersigned registrant hereby undertakes:

(1) To file, during any period in which it offers or sells securities, a post-effective amendment to this registration statement to:

(i) Include any prospectus required by Section 10(a)(3) of the Securities Act;

(ii) Reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of the securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of a prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20 percent change in the maximum offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement;

(iii) Include any additional or changed material information on the plan of distribution;

(2) That, for the purpose of determining any liability under the Securities Act, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the bona fide offering thereof.

(3) To file a post-effective amendment to remove from registration any of the securities that remain unsold at the end of the offering.

Insofar as indemnification arising under the Securities Act may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question of whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

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SIGNATURES

In accordance with the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-1 and authorized this registration statement to be signed on its behalf by the undersigned in Monmouth Junction, State of New Jersey, on December 20, 2011.

CYTOSORBENTS CORPORATION
(Registrant)

By: /s/ Dr. Phillip Chan
Dr. Phillip Chan
Chief Executive Officer

In accordance with the requirements of the Securities Act of 1933, this registration statement has been signed by the following persons in the capacities and on the dates indicated:

Signature	Title	Date
/s/ Dr. Phillip Chan Dr. Phillip Chan	Chief Executive Officer (Principal Executive Officer) and Director	December 20, 2011
/s/ David Lamadrid David Lamadrid	Chief Financial Officer (Principal Accounting and Financial Officer)	December 20, 2011
/s/ Vincent Capponi Vincent Capponi	Chief Operations Officer	December 20, 2011
/s/ Joseph Rubin, Esq. Joseph Rubin, Esq.	Director	December 20, 2011
/s/ Edward Jones Edward Jones, MD	Director	December 20, 2011
/s/ James Gunton James Gunton	Director	December 20, 2011
/s/Al Kraus Al Kraus	Director	December 20, 2011