Cardo Medical, Inc.
Form 10-Q
May 14, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2010

OR

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

For the transition period from _____to _____

Commission file number 0-21419

Cardo Medical, Inc.

(Exact name of Registrant as Specified in its Charter)

Delaware	**23-2753988**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

9701 Wilshire Blvd., Suite 1100
Beverly Hills, CA 90212

(Address of Principal Executive Offices including Zip Code)

(310) 274-2036

(Registrant's Telephone Number, Including Area Code)

N/A

(Former name, former address and former fiscal year, if changed since last report) Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file reports), and (2) has been subject to such filing requirements for the past 90 days. YES x NO ¨ Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES ¨ NO ¨

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

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

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

As of May 10, 2010, 230,293,141 shares of the issuer's common stock, par value of $0.001 per share, were outstanding.

Note: PDF provided as a courtesy

CARDO MEDICAL, INC.

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PART I — FINANCIAL INFORMATION

ITEM 1 — CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CARDO MEDICAL, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share amounts)

	March 31, 2010	December 31, 2009
	(Unaudited)	
Assets		
Current assets		
Cash	$ 3,688	$ 4,973
Accounts receivable	678	307
Inventories	3,670	3,256
Prepaid expenses and other current assets	53	65
Total current assets	8,089	8,601
Property and equipment, net	1,417	1,228
Goodwill	1,233	1,233
Other intangible assets, net	4,190	4,353
Deposits and other assets, net	160	173
Total assets	$ 15,089	$ 15,588
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable and accrued expenses	$ 1,789	$ 851
Stockholders' equity		
Common stock, $0.001 par value, 750,000,000 million shares authorized, 230,293,141 issued and outstanding as of March 31, 2010 (unaudited) and December 31, 2009	230	230
Additional paid-in capital	25,740	25,722
Note receivable from stockholder	(50)	(50)
Accumulated deficit	(12,620)	(11,165)
Total stockholders' equity	13,300	14,737
Total liabilities and stockholders' equity	$ 15,089	$ 15,588

The accompanying notes are an integral part of these condensed consolidated financial statements.

CARDO MEDICAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except share amounts)
(Unaudited)

	Three Months Ended March 31,	
	2010	**2009**
Net sales	$ 902	$ 432
Cost of sales	172	82
Gross profit	730	350
Research and development expenses	286	46
Selling, general and administrative expenses	1,906	1,536
Loss from operations	(1,462)	(1,232)
Interest income, net	7	8
Loss before income tax provision	(1,455)	(1,224)
Provision for income taxes	-	-
Net loss	$ (1,455)	$ (1,224)
Net loss available to common stockholders per share:		
Basic and diluted	$ (0.01)	$ (0.01)
Weighted average shares outstanding:		
Basic and diluted	230,293,141	203,360,271

The accompanying notes are an integral part of these condensed consolidated financial statements.

CARDO MEDICAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Three Months Ended March 31,	
	2010	**2009**
Cash flows from operating activities		
Net loss	$ (1,455)	$ (1,224)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	337	266
Stock option compensation	18	31
Changes in operating assets and liabilities:		
Accounts receivable	(371)	(79)
Inventories	(414)	(138)
Prepaid expenses and other current assets	12	(3)
Accounts payable and accrued expenses	938	164
Net cash used in operating activities	(935)	(983)
Cash flows from investing activities		
Purchases of property and equipment	(350)	(432)
Net cash used in investing activities	(350)	(432)
Net change in cash	(1,285)	(1,415)
Cash, beginning of period	4,973	3,095
Cash, end of period	$ 3,688	$ 1,680
Supplemental disclosure of cash flow information:		
Interest paid	$ -	$ -
Income taxes paid	$ -	$ -

The accompanying notes are an integral part of these condensed consolidated financial statements.

CARDO MEDICAL, INC.
Notes to Condensed Consolidated Financial Statements
March 31, 2010
(Unaudited)

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cardo Medical, Inc. ("Cardo" or the "Company") is an orthopedic medical device company specializing in designing, developing and marketing high performance reconstructive joint devices and spinal surgical devices. Reconstructive joint devices are used to replace knee, hip and other joints that have deteriorated through disease or injury. Spinal surgical devices involve products to stabilize the spine for fusion and reconstructive procedures. Within these areas, Cardo intends to focus on the higher-growth sectors of the orthopedic industry, such as advanced minimally invasive instrumentation and bone-conserving high performance implants. Cardo is focused on developing surgical devices that will enable surgeons to bridge the gap between soft tissue-driven sports medicine techniques and classical reconstructive surgical procedures.

Basis of Presentation

The accompanying condensed consolidated balance sheet as of December 31, 2009, which has been derived from Cardo's audited financial statements as of that date, and the unaudited condensed consolidated financial information of Cardo as of March 31, 2010 and for the three months ended March 31, 2010 and 2009, has been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and with the instructions to Form 10-Q and Article 8-03 of Regulation S-X. In the opinion of management, such financial information includes all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation of the Company's financial position at such date and the operating results and cash flows for such periods. Operating results for the interim period ended March 31, 2010 are not necessarily indicative of the results that may be expected for the entire year.

Certain information and footnote disclosure normally included in financial statements in accordance with generally accepted accounting principles have been omitted pursuant to the rules of the United States Securities and Exchange Commission ("SEC"). These unaudited financial statements should be read in conjunction with our audited financial statements and accompanying notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009 filed on March 31, 2010.

Principles of Consolidation

The condensed consolidated financial statements include the accounts of Cardo, Accelerated Innovation, Inc. ("Accelerated"), Uni-Knee LLC ("Uni") and Cervical Xpand LLC ("Cervical"). All significant intercompany transactions have been eliminated in consolidation. The non-controlling and minority interests in these companies is represented by a single balance in the condensed consolidated balance sheets.

Management's Plan

As reflected in the accompanying financial statements, the Company has losses from operations, negative cash flows from operations, an accumulated deficit and limited cash to fund future operations. These matters raise substantial doubt about the Company's ability to continue as a going concern. The Company raised nearly $6 million in net proceeds during the fourth quarter of 2009 through private placements of its securities. Notwithstanding success in raising this type of financing, there continues to be substantial doubt about the Company's ability to continue as a going concern.

In view of the matters described in the preceding paragraph, recoverability of a major portion of the recorded asset amounts shown in the accompanying balance sheet is dependent upon continued operations of the Company, which, in turn, is dependent upon the Company's ability to continue to raise capital and ultimately generate positive cash flows from operations. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or amounts and classifications of liabilities that might be necessary should the Company be unable to continue its existence.

Net Loss Per Share

Basic net (loss) income per share is computed by using the weighted-average number of common shares outstanding during the period. Diluted net (loss) income per share is computed giving effect to all dilutive potential common shares that were outstanding during the period. Dilutive potential common shares consist of incremental common shares issuable upon exercise of stock options or warrants. No dilutive potential common shares are included in the computation of any diluted per share amount when a loss from continuing operations is reported by the Company because they are anti- dilutive.

Concentrations

As of March 31, 2010, the Company had two customers that accounted for 25.7% and 18.0% of its accounts receivable. The Company had two customers that comprised 23.7% and 19.4% of the Company's net sales for the three months ended March 31, 2010.

As of December 31, 2009, the Company had four customers that accounted for 28.2%, 15.6%, 15.4% and 10.0% of its accounts receivable. The Company had four customers that comprised 24.4%, 22.0%, 16.5% and 11.2% of the Company's net sales for the three months ended March 31, 2009.

Reclassifications

Certain amounts from prior periods have been reclassified to conform to the current period presentation.

Recent Accounting Pronouncements

There are no recently issued accounting pronouncements that the Company has yet to adopt that are expected to have a material effect on its financial position, results of operations, or cash flows.

NOTE 2 — INVENTORY

Inventories consisted of the following at:

(In thousands)	March 31, 2010	December 31, 2009
	(Unaudited)	
Packaging materials	$ 71	$ 24
Work in process	703	360
Finished goods	2,896	2,872
	$ 3,670	$ 3,256

NOTE 3 — SHARE BASED PAYMENT

On August 29, 2008, the Company issued options to certain employees and Board members to purchase membership units in Cardo. The options give the grantees the right to purchase up to 2,398,400 shares of the Company's common stock at an exercise price of $0.23 per share. The options vest 20% each year over a five- year period and expire after ten years. The weighted average grant date fair value of options granted was $0.13 per option, for a total fair value of $300,000, which will be reflected as an operating expense over the vesting period of the options. Stock option compensation recognized for the three months ended March 31, 2010 and 2009 in the accompanying condensed consolidated statements of operations amounted to $17,799 and $31,227, respectively.

The fair value of each option award was estimated on the date of grant using the Black-Scholes option valuation model that uses the assumptions noted in the following table. Because the Black-Scholes option valuation model incorporate ranges of assumptions for inputs, those ranges are disclosed. To estimate volatility of the options over their expected terms, the Company measured the historical volatility of the components of the small cap sector of the Dow Jones medical equipment index for a period equal to the expected life of the Cardo options. It also measured

the volatility of other public companies with similar size and industry characteristics to Cardo for the same period. These measurements were averaged and the result was used as expected volatility. As there was no history of option lives at Cardo, the expected term of options granted was the midpoint between the vesting periods and the contractual life of the options. The risk-free rate for periods within the contractual life of the option was based on the U.S. Treasury yield curve in effect at the time of grant. The forfeiture rate was based on an analysis of the nature of the recipients' jobs and relationships to the Company.

A summary of stock option activity as of March 31, 2010, and changes during the period then ended is presented below.

	Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2009	2,036,000	$ 0.23		
Granted	-	-		
Exercised	-	-		
Forfeited	(45,600)	$ 0.23		
Outstanding at March 31, 2010 (unaudited)	1,990,400	$ 0.23	8.92	$ 537,408
Exercisable at March 31, 2010 (unaudited)	398,080	$ 0.23	8.92	$ 107,482

The aggregate intrinsic value represents the closing stock price as of March 31, 2010 less the exercise price, multiplied by the number of options that have an exercise price that is less than the closing stock price.

On April 8, 2010, the Board of Directors approved the 2010 Stock Incentive Plan (the "2010 Incentive Plan"), which will be voted on by the Company's stockholders at the June 16, 2010 Annual Meeting. The 2010 Incentive Plan authorizes the Company to grant up to 23,000,000 incentive stock options or other share-based awards. As of the date of this filing, no awards have been granted under the 2010 Incentive Plan.

NOTE 4 — STOCKHOLDERS' EQUITY

Our authorized capital consists of 750,000,000 shares of common stock and 50,000,000 shares of preferred stock. Our preferred stock may be designated into series pursuant to authority granted by our Certificate of Incorporation, and on approval from our Board of Directors. As of March 31, 2010 we did not have any preferred stock issued.

NOTE 5 — SEGMENT INFORMATION

The Company's businesses are currently organized into the following two reportable segments; reconstructive products (the "Reconstructive Division") and spine products (the "Spine Division"). The Reconstructive Division segment is comprised of activity relating to the Company's unicompartmental knee, patellofemoral products, the total knee and hip products. The Spine Division segment is comprised of the spinal lumbar fusion system, cervical plate and screw systems, and various interbody products.

The division into these reportable segments is based on the nature of the products offered. Management evaluates performance and allocates resources based on several factors, of which the primary financial measure is segment operating results. Due to the distinct nature of the products in the Company's Reconstructive Division, and the fact that it has a more developed market for its products, it is considered by management as a separate segment. The Company's Spine Division is still in the process of developing the market and obtaining instrumentation necessary to

sell the products in greater quantities. As a result of the unique characteristics of this product line, the Spine Division is considered by management as a separate segment.

As of March 31, 2010, the Company's Reconstructive Division includes $1,233,000 of goodwill and $4,190,000 in other intangible assets, net of amortization, relating to the Company's unicompartmental knee and hip products. These amounts are expected to be deductible for income tax purposes.

The following table sets forth financial information by reportable segment as of March 31, 2010 and for the three months ended March 31, 2010 and 2009:

(In thousands)	Reconstructive Division	Spine Division	Corporate	Total
Three Months Ended March 31, 2010 (unaudited)				
Net sales	$ 478	$ 424	$ -	$ 902
Total cost of sales and operating expenses	86	86	1,855	2,027
Depreciation and amortization	323	3	11	337
Interest income, net	-	-	7	7
Net income (loss)	$ 69	$ 335	$ (1,859)	$ (1,455)
Property and equipment acquisitions	$ 250	$ 23	$ 77	$ 350
Total assets	$ 9,236	$ 1,888	$ 3,965	$ 15,089
Three Months Ended March 31, 2009 (unaudited)				
Net sales	$ 412	$ 20	$ -	$ 432
Total cost of sales and operating expenses	77	5	1,300	1,382
Depreciation and amortization	258	1	7	266
Interest income, net	-	-	8	8
Net income (loss)	$ 77	$ 14	$ (1,315)	$ (1,224)

All of the Company's net sales were attributable to activity in the United States. There were no long-lived assets held in foreign countries.

ITEM 2 — MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The discussion and analysis of our financial condition and results of operations are based on our financial statements, which we have prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported revenues and expenses during the reporting periods. On an ongoing basis, we evaluate estimates and judgments, including those described in greater detail below. We base our estimates on historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

As used in this "Management's Discussion and Analysis of Financial Condition and Results of Operation," except where the context otherwise requires, the term "we," "us," "our" or "Cardo" refers to the business of Cardo Medical, Inc.

The following discussion should be read together with the information contained in the unaudited condensed consolidated financial statements and related notes included in Item 1, "Financial Statements," in this Form 10-Q. All dollar amounts are in thousands unless otherwise specified.

Overview

Cardo Medical, Inc. is an orthopedic medical device company specializing in designing, developing and marketing high performance reconstructive joint devices and spinal surgical devices. Reconstructive joint devices are used to replace knee, hip and other joints that have deteriorated through disease or injury. Spinal surgical devices involve products to stabilize the spine for fusion and reconstructive procedures. Within these areas, we are focused on developing surgical devices, instrumentation and techniques that will enable surgeons to move what are typically inpatient surgical procedures to the outpatient world. We commercialize our reconstructive joint devices through our Reconstructive division and our spine devices through our Spine division. We launched and commenced sales of our first product in December 2006, which was a high performance unicompartmental knee replacement. We commenced sales of our other reconstructive products in 2007 and our spine products in 2008.

We are headquartered in Beverly Hills, California. In connection with the consummation of the merger with CKST, CKST approved through its stockholders an amendment to its Amended and Restated Certificate of Incorporation to change its name from "clickNsettle.com, Inc." to "Cardo Medical, Inc." CKST's trading symbol was "CKST.OB," which has changed to "CDOM.OB" in connection with the name change. Cardo Medical's common stock is quoted on the National Association of Securities Dealers, Inc.'s, Over-the-Counter Bulletin Board, or the OTC Bulletin Board.

Critical Accounting Policies

Use of Estimates

Financial statements prepared in accordance with United States generally accepted accounting principles ("U.S. GAAP") require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Among other things, management makes estimates relating to allowances for doubtful accounts, excess and obsolete inventory items, the estimated depreciable lives of property and equipment, the impairment of goodwill and other intangible assets, share-based payment, deferred income tax assets and the allocation of the purchase price paid for the minority interests in Accelerated Innovation, Inc. ("Accelerated"), Cervical Xpand LLC ("Cervical ") and Uni-Knee LLC ("Uni"). Given the short operating history of Cardo, actual results could differ from

those estimates.

Revenue Recognition

We recognize revenue when it is realizable and earned. Management considers revenue to be realizable and earned when the following criteria are met: persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the seller's price to the buyer is fixed or determinable, and collectability is reasonably assured.

Persuasive evidence of the arrangements occurs when we receive a signed contract from the hospital in which the surgery will be performed. Within that contract is the price at which the hospital will buy the device. Delivery occurs on the day of surgery when the device is implanted by the surgeon. Collectability is reasonably assured as we have continuing relationships with the hospitals and can pursue collections if necessary. As we do not accept returns and do not have any post-sale obligations, the date of revenue recognition is on the date of surgery.

Inventory

Inventory is stated at the lower of cost or net realizable value as determined by assessing the gross profit less selling costs of each inventory item. Cost is determined on a first-in, first-out basis; and the inventory is primarily comprised of work-in-process and finished goods. Work-in-process consists of fabrication costs paid relating to items not physically received. Finished goods are completed knee, hip and spine replacement products ready for resale to customers.

At each balance sheet date, management evaluates the ending inventories for excess quantities and obsolescence. This evaluation includes an analysis of sales levels by product type. Among other factors, we consider current product configurations, historical and forecasted demand, market conditions and product life cycles when determining the net realizable value of the inventory. Provisions are made to reduce excess or obsolete inventories to their estimated net realizable values. Once established, write-downs are considered permanent adjustments to the cost basis of the excess or obsolete inventory. We did not have any inventory considered by management to be excess or obsolete as of March 31, 2010. Based on the forecasted sales amounts, we do not expect any changes in net realizable value in the near future.

Property and Equipment

Property and equipment are recorded at historical cost and depreciated on a straight-line basis over their estimated useful lives, which range from three to five years. This estimate is based on the useful life of the individual items. When items are retired or disposed of, income is charged or credited for the difference between the net book value of the asset and the proceeds realized thereon. Ordinary maintenance and repairs are charged to expense as incurred, and replacements and betterments are capitalized. This estimate is unlikely to experience any differences from what is reflected in the financial statements.

Goodwill and Other Intangible Assets

Goodwill represents the excess of purchase price over fair value of tangible net assets of acquired businesses after amounts allocated to other intangible assets. Other intangible assets include a royalty agreement, developed technology and customer relationships which are amortized on a straight-line basis over 2 to 10 years. Goodwill and other intangible assets were generated when we acquired the non-controlling interests of Accelerated, Cervical and Uni.

Goodwill and Long-Lived Assets Impairment

Goodwill and long-lived assets are assessed for impairment annually or more frequently if events or circumstances occur that potentially indicate that the carrying amount of the assets may not be recoverable. We concluded that there were no such events or changes in circumstances during 2009. We conduct our annual evaluations for impairment at

the end of the fourth quarter of each year. Goodwill impairment testing compares the fair value of a reporting unit with its carrying value using discounted cash flow projections. Long-lived asset impairment testing compares the projected undiscounted future cash flows associated with the related assets over their estimated useful lives against their respective carrying amount. Impairment, if any, is based on the excess of the carrying amount over the fair value, based on market value when available, or discounted expected cash flows, of those assets and is

recorded in the period in which the determination is made. These evaluations require us to make certain assumptions and estimate future revenues and profitability.

Based on the assessment performed for the year ended December 31, 2009, we determined that the fair value of the knee and hip reporting units were in excess of the corresponding assets' carrying value as of December 31, 2009. Accordingly, no impairment charges were recorded for the year ended December 31, 2009.

Share Based Payment

In order to determine compensation on options issued to consultants, and employees' options, the fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model. Management estimates the requisite service period used in the Black-Scholes calculation based on an analysis of vesting and exercisability conditions, explicit, implicit, and/or derived service periods, and the probability of the satisfaction of any performance or service conditions. Management also considers whether the requisite service has been rendered when recognizing compensation costs. Expected volatilities are based on the historical volatility of the components of the small cap sector of the Dow Jones medical equipment index for a period equal to the expected life of our options. We also measure the volatility of other public companies with similar size and industry characteristics to us for the same period. These measurements are averaged and the result is used as expected volatility. As there is no history of option lives at our company, the expected term of options granted is the midpoint between the vesting periods and the contractual life of the options. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The forfeiture rate is based on an analysis of the nature of the recipients' jobs and relationships to us.

Income Taxes

On August 29, 2008, Cardo LLC consummated a reverse merger with CKST thereby adopting CKST as the taxpaying entity.

Our deferred tax assets and liabilities are recognized to reflect the estimated future tax effects, calculated at currently effective tax rates, of future deductible or taxable amounts attributable to events that have been recognized on a cumulative basis in the financial statements. A valuation allowance related to a deferred tax asset is recorded when it is more likely than not that some portion of the deferred tax asset will not be realized. The estimated value of the deferred tax assets are subject to significant change based on the company's future profitability. Deferred tax assets and liabilities are adjusted for the effects of the changes in tax laws and rates of the date of enactment.

In June 2008, the Financial Accounting Standards Board ("FASB") sought to reduce the diversity in practice associated with certain aspects of measurement and recognition in accounting for income taxes. FASB prescribed a recognition threshold and measurement requirement for the financial statement recognition of a tax position that has been taken or is expected to be taken on a tax return and also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. As such, we may only recognize or continue to recognize tax positions that meet a "more likely than not" threshold. Based on this analysis, our tax position is unlikely to change.

Recent Accounting Pronouncements

There are no recently issued accounting pronouncements that we have yet to adopt that are expected to have a material effect on our financial position, results of operations, or cash flows.

Results of Operations for the Three Months Ended March 31, 2010 as Compared to the Three Months Ended March 31, 2009.

The following is a comparison of the consolidated results of operations for Cardo for the three months ended March 31, 2010 and 2009:

(In thousands)	Three Months Ended March 31,		
	2010	2009	Variance
Net sales	$ 902	$ 432	$ 470
Cost of sales	172	82	90
Gross profit	730	350	380
Research and development expenses	286	46	240
Selling, general and administrative expenses	1,906	1,536	370
Loss from operations	(1,462)	(1,232)	(230)
Interest income, net	7	8	(1)
Loss before income tax provision	(1,455)	(1,224)	(231)
Provision for income taxes	-	-	-
Net loss	$ (1,455)	$ (1,224)	$ (231)

Revenues

During the quarter ended March 31, 2010, we generated revenues of $902,000 compared to $432,000 for the same period in 2009. The $470,000 increase resulted from wider acceptance of our Hip and Spine products by orthopedic and back surgeons. We experienced substantial growth in Spine sales, an increase of $404,000, in the current quarter as compared to 2009. We introduced the resale of interbody spinal devices during the current quarter, which was a major contributor to the increase in Spine sales. There were no such comparable interbody sales in 2009. The current quarter increases in Hip and Spine sales were offset by a slight drop in Knee sales. Our Knee and Hip products accounted for 53% of total sales during the three months ended March 31, 2010 compared to 95% in 2009.

Gross Profit

During the quarter ended March 31, 2010, we had cost of sales of $172,000 compared to $82,000 during the quarter ended March 31, 2009. Our gross profit percentage was 80.9% during the three months ended March 31, 2010 compared to 81.1% for the corresponding period in 2009. This slight decrease in 2010 was attributed to sales of Spine products that generate margins consistent with Hip products, both of which yield profit margins lower than Knee products. As acceptance of our reconstructive and spine products continues to grow, it is expected that our 2010 profit margins will remain mostly consistent with 2009 but significant fluctuations in our sales mix can have an impact on the overall gross profit.

Research and Development Expenses

During the quarter ended March 31, 2010, we had research and development costs of $286,000 compared to $46,000 for the same period in 2009. The increase in the current year is primarily a result of direct labor allocations and increase volume of custom instruments created for surgeons. Research costs associated with certain Knee and Hip products have increased moderately and are likely to increase in the upcoming quarters as we look to improve our overall product portfolio.

Selling, General and Administrative Expenses

During the quarter ended March 31, 2010, we had selling general and administrative expenses of $1,906,000 compared to $1,536,000 in the same period of 2009, an increase of $370,000. Sales commissions increased by $190,000 in 2010 which was mostly consistent with our higher sales volume. Depreciation and amortization expense

increased by $71,000 in 2010 because of the acquisition of additional instrumentation required to support base inventory levels and continued sales increases. Travel to new or prospective hospitals and industry conferences increased in 2010 along with rent and office expenses as we added office space and our overall business activity was greater than it was in 2009. In addition, professional fees increased $101,000 during the quarter ended March 31, 2010 as a result of more regulatory filings and corporate activity.

Interest Income/(Expense)

During the quarter ended March 31, 2010, we had interest income of $7,000 compared to $8,000 during the same period in 2009. Interest income is earned on our excess cash balances, which were comparable in both periods.

Segment Information

Our businesses are currently organized into the following two reportable segments; reconstructive products (the "Reconstructive Division") and spine products (the "Spine Division"). The Reconstructive Division segment is comprised of activity relating to Cardo's unicompartmental knee, patella-femoral products, and reconstructive knee products. The Spine Division segment is comprised of the spinal lumbar fusion system and cervical plate and screw systems.

These reportable segments are based on the nature of the products offered. Management evaluates performance and allocates resources based on several factors, of which the primary financial measure is segment operating results. Due to the distinct nature of the products in our Reconstructive Division, and the fact that it has a more developed market for its products, it is considered by management as a separate segment. Our Spine Division is still in the process of developing the market and obtaining instrumentation necessary to sell the products in greater quantities. As a result, the Spine Division is considered by management as a separate segment. The accounting policies of the reportable segments are the same as those described in Note 1.

As of March 31, 2010, our Reconstructive Division included $1,233,000 of goodwill and $4,190,000 in other intangible assets, net of amortization, relating to our unicompartmental knee and hip products. These amounts are expected to be deductible for income tax purposes.

The following table sets forth summarized financial results by reportable segment for the three months ended March 31, 2010 and 2009:

(In thousands)	Reconstructive Division	Spine Division	Corporate	Total
Three Months Ended March 31, 2010 (unaudited)				
Net sales	$ 478	$ 424	$ -	$ 902
Total cost of sales and operating expenses	86	86	1,855	2,027
Depreciation and amortization	323	3	11	337
Interest income, net	-	-	7	7
Net income (loss)	$ 69	$ 335	$ (1,859)	$ (1,455)
Property and equipment acquisitions	$ 250	$ 23	$ 77	$ 350
Total assets	$ 9,236	$ 1,888	$ 3,965	$ 15,089
Three Months Ended March 31, 2009 (unaudited)				
Net sales	$ 412	$ 20	$ -	$ 432
Total cost of sales and operating expenses	77	5	1,300	1,382
Depreciation and amortization	258	1	7	266
Interest income, net	-	-	8	8
Net income (loss)	$ 77	$ 14	$ (1,315)	$ (1,224)

All of the Company's net sales were attributable to activity in the United States. There were no long-lived assets held in foreign countries.

Liquidity and Capital Resources

Net cash used in operating activities was $935,000 for the three months ended March 31, 2010 compared to $983,000 for the same period in 2009. The primary use of cash in 2010 beyond wages and other operating costs was the continued build-up of inventory, which has increased $414,000 during the current year.

Net cash used in investing activities was $350,000 for the three months ended March 31, 2010 compared to $432,000 for the same period in 2009. The cash used for investment activities during the three months ended March 31, 2010 was attributed to the purchase of equipment to accommodate our operational and corporate growth as well as additional instrumentation required in order to support current and anticipated future sales levels.

There was no cash raised by financing activities during the three months ended March 31, 2010 or 2009. Although we may not have sufficient cash to fund our operations for the remainder of 2010, our current working capital should allow us to meet our needs through the third fiscal quarter of 2010.

We raised nearly $6 million net proceeds during the fourth quarter of 2009 through private placements; however, the available funds are not projected to meet all of our working capital needs for the next twelve months. We anticipate that we will sustain losses through the third quarter of 2010, and may require outside sources of additional capital to supplement operations which creates substantial doubt about our ability to continue as a going concern.

Management intends to use borrowings and/or securities sales to provide additional cash to fund our operations. However, we cannot assure you that debt or equity financing, if and when required, will be available. Our ability to continue as a going concern is dependent upon receiving additional funds either through the issuance of debt or through common and/or preferred stock and the success of management's plan to expand sales. Although we may obtain external financing through the sales of our securities, there can be no assurance that such financing will be available, or if available, that any such financing would be on terms acceptable to us. If we are unable to fund our cash flow needs, we may have to reduce or stop planned growth or scale back operations and reduce staff.

Forward-Looking Statements

Some of the statements in this Quarterly Report on Form 10-Q are "forward-looking statements," as that term is defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements may be identified by the use of words such as "may," "will," "should," "anticipate," "estimate," "expect," "plan," "believe," "predict," "potential," "project," "target," "forecast," "intend," "assume," "guide," "seek" and similar expressions. Forward-looking statements do not relate strictly to historical or current matters. Rather, forward-looking statements are predictive in nature and may depend upon or refer to future events, activities or conditions. Although we believe that these statements are based upon reasonable assumptions, we cannot provide any assurances regarding future results. We undertake no obligation to revise or update any forward-looking statements, or to make any other forward-looking statements, whether as a result of new information, future events or otherwise.

Because forward-looking statements relate to matters that have not yet occurred, these statements are inherently subject to risks and uncertainties. Many factors could cause our actual activities or results to differ materially from the activities and results anticipated in forward-looking statements. Information regarding our risk factors appears in Part I, Item 1A, "Risk Factors," in our Annual Report on Form 10-K for the year ended December 31, 2009 includes, but is not limited to, the following:

- We may need to raise additional funds in the future to fund our operations and research, and these funds may not be available on acceptable terms, if at all.

- We expect to incur significant losses, either directly or indirectly through the companies in which we develop our products, for at least the next fiscal year, and we cannot assure you that we will ever be profitable.

- We have a limited number of products currently available for sale and there is a high risk that our research and development efforts might not successfully generate any viable product candidates in the future.

- Healthcare policy changes, including recently enacted legislation reforming the U.S. healthcare system, may have a material adverse effect on our financial condition and results of operations.

- Cost containment measures, pressure from our competitors and availability of medical reimbursement may impact our ability to sell our products at prices necessary to expand our operations and reach profitability.

- Sales of our products will depend on the availability of adequate reimbursement from third-party payors (such as governmental programs, for example, Medicare and Medicaid, private insurance plans and managed care programs), both in terms of the sales volumes and prices of our products.

- Legislative or administrative reforms to the U.S. or international reimbursement systems in a manner that significantly reduces reimbursement for procedures using our medical devices or denies coverage for those procedures could have a material adverse effect on our business, financial condition or results of operations.

- We must convince orthopedic and spine surgeons that our products are an attractive alternative to existing surgical treatments of orthopedic and spine disorders.

- Hospitals, surgeons, distributors and agents may have existing relationships with other medical device companies that make it difficult for us to establish new relationships with them. As a result, we may not be able to sell and market our products effectively.

- Our business plan relies on certain assumptions about the market for our products, which, if incorrect, may adversely affect our business and profitability.

- We expect to face significant competition as a result of the rapid technological changes in the medical devices industry, which could have an adverse effect on our business, financial condition or results of operations.

- We rely on single source manufacturers, which could impair our ability to meet demand for delivering our products in a timely manner or within our budget.

- Loss of any major customer could have a material adverse effect on our business, financial condition and results of operations.

- Our growth will depend on developing new products or product enhancements, requiring significant research and development, clinical trials and regulatory approvals, all of which are expensive and time-consuming and may not result in a commercially viable product.

- If we choose to grow our business by acquiring new and complementary businesses, products or technologies, we may be unable to complete these acquisitions or successfully integrate them in a cost-effective and non-disruptive manner.

- We rely on our independent sales distributors and sales representatives to market and sell our products.

- We are dependent on the services of Andrew A. Brooks, M.D. and Michael Kvitnitsky, and the loss of either of them could harm our business.

- Failure to attract and retain skilled personnel and cultivate key academic collaborations will delay product development programs and business development efforts.

- If conflicts arise between collaborators or advisors and us, any of these parties may act in its self-interest, which may be adverse to our interests and the interests of our stockholders.

- If we fail to properly manage our anticipated growth, our business could suffer.

- If we fail to upgrade our management information systems, or if those systems do not operate as expected, we could experience significant disruption of our business and product developments and our results could suffer.

- If a natural or man-made disaster strikes a facility in which our products are manufactured, we could be unable to deliver our products for a substantial amount of time and our sales could decline.

- If we decide to market and sell our devices and products internationally, we would be subject to various risks relating to our international activities, which could negatively impact our business and financial results.

- We are subject to substantial governmental regulation that could change and thus force us to make modifications to how we develop, manufacture and price our products. Compliance with the various complex laws and regulations is costly and time consuming, and failure to comply can have adverse consequences on our business.

- Federal regulatory reforms may adversely affect our ability to sell our products profitably.

- We have not yet collected long-term clinical data to support the safety of our products, and our products may, therefore, prove to be less safe and effective than initially thought.

- The FDA requires us to obtain new Section 510(k) clearances or premarket approvals for modifications to our approved products. Otherwise, we may have to cease marketing, or to recall, the modified products until clearances are obtained.

- If we or our third-party manufacturers fail to comply with the FDA's Quality System Regulations, the manufacture of our products could be interrupted and our product sales and operating results could suffer.

- Some proponents have advocated the creation of a national database or registry that tracks how patients with artificial joints fare. Any requirement for surgeons to participate in such a registry may adversely affect our ability to sell our products profitably.

- We are an orthopedic medical device company with a limited operating history and our business may not become profitable.

- Our quarterly financial results are likely to fluctuate significantly because our sales prospects are uncertain and our sales are difficult to forecast.

- If we cannot adequately protect our patents and other intellectual property rights, we may lose market share to our competitors and be unable to operate our business profitably.

- Changes to intellectual property laws may negatively impact our ability to protect our intellectual property.

- The medical device industry is characterized by patent and other intellectual property litigation, and we could become subject to litigation that could be costly, result in diverting management's time and efforts, require us to pay damages, and/or prevent us from marketing our existing or future products.

- Patent infringement lawsuits brought against us could have a material adverse affect on our ability to develop and sell our products and to operate profitably.

- We may be subject to damages resulting from claims that we or our employees or consultants have wrongfully used or disclosed alleged trade secrets of their former employers.

- Some countries may require us to grant compulsory licenses to third parties. These licenses could be extended to include some of our products or potential product, which may limit our potential revenue opportunities.

- Fluctuations in the cost and availability of insurance could adversely affect our profitability or our risk management profile.

- Potential future product liability claims and other litigation, including contract litigation, may adversely affect our business, reputation and ability to attract and retain customers.

- Any claims relating to our making improper payments to physicians for consulting services, or other potential violations of regulations governing interactions between us and healthcare providers, could be time-consuming and costly.

- Our common stock may be thinly traded.

- We expect that the price of our common stock will fluctuate substantially, potentially adversely affecting the ability of investors to sell their shares.

- We may become involved in securities class action litigation that could divert management's attention and harm its business.

- Securities analysts may elect not to report on our common stock or may issue negative reports that adversely affect the price of our common stock.

- Anti-takeover provisions in our charter documents and Delaware law may discourage or prevent a change in control, even if an acquisition would be beneficial to our stockholders, which could affect our stock price adversely and prevent attempts by our stockholders to replace or remove our current management.

- Because our common stock may be a "penny stock," it may be more difficult for investors to sell shares of our common stock, and the market price of our common stock may be adversely affected.

- A significant number of shares will become eligible for future sale by our stockholders and the sale of those shares could adversely affect the stock price.

- Directors, executive officers, principal stockholders and affiliated entities own a significant percentage of our capital stock, and they may make decisions that you do not consider to be in the best interests of our stockholders.

- Our stock price could decline as a result of our failure to meet reporting and other regulatory requirements.
- Failure to maintain effective internal controls in accordance with Section 404 of the Sarbanes-Oxley Act could have a material adverse effect on our business and stock price.
- Our status as a public company may make it more difficult to attract and retain officers and directors.
- Compliance with changing regulations concerning corporate governance and public disclosure may result in additional expenses.
- Stockholders may experience significant dilution if future equity offerings are used to fund operations or acquire complementary businesses.
- We do not intend to pay cash dividends. Any return on investment may be limited to the value of our common stock, if any.
- Our Certificate of Incorporation grants our Board of Directors the power to designate and issue additional shares of common and/or preferred stock.

Additional information concerning these risk factors can be found in our other filings made with the SEC. Forward-looking statements in this Quarterly Report on Form 10-Q should be evaluated in light of these important factors.

ITEM 4T — CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act, that are designed to ensure that information required to be disclosed in our reports under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and our principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

We carried out an evaluation under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this quarterly report. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of March 31, 2010.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended March 31, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

ITEM 6 — EXHIBITS

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

Exhibit Number	Exhibit Title
31.1	Certification of Chief Executive Officer of Cardo Medical, Inc., as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer of Cardo Medical, Inc., as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer of Cardo Medical, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2

Certification of Chief Financial Officer of Cardo Medical, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

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

CARDO MEDICAL, INC.

May 14, 2010	By:	/s/ Andrew A. Brooks
		Andrew A. Brooks Chief Executive Officer
May 14, 2010	By:	/s/ Derrick Romine
		Derrick Romine Chief Financial Officer

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