Cardo Medical, Inc.
Form 10-Q
November 22, 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 September 30, 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)

7625 Hayvenhurst Avenue, Suite #49
Van Nuys, CA 91406

(Address of Principal Executive Offices including Zip Code)

(818) 780-6677

(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 November 16, 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.

Table of Contents

PART I — FINANCIAL INFORMATION

ITEM 1 — CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	September 30, 2010	December 31, 2009
	(Unaudited)	
Assets		
Current assets		
Cash	$ 196	$ 4,973
Accounts receivable	486	307
Inventories, net	3,045	3,256
Prepaid expenses and other current assets	110	65
Total current assets	3,837	8,601
Property and equipment, net	1,774	1,228
Goodwill	-	1,233
Other intangible assets, net	-	4,353
Deposits and other assets, net	32	173
Total assets	$ 5,643	$ 15,588
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable and accrued expenses	$ 1,905	$ 851
Stockholders' equity		
Common stock, $0.001 par value, 750,000,000 million shares authorized, 230,293,141 issued and outstanding as of September 30, 2010 (unaudited) and December 31, 2009, respectively	230	230
Additional paid-in capital	25,773	25,722
Note receivable from stockholder	(50)	(50)
Accumulated deficit	(22,215)	(11,165)
Total stockholders' equity	3,738	14,737
Total liabilities and stockholders' equity	$ 5,643	$ 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 September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Net sales	$ 771	$ 436	$ 2,750	$ 1,314
Cost of sales	1,789	84	2,182	254
Gross profit (deficit)	(1,018)	352	568	1,060
Research and development expenses	249	123	848	329
Selling, general and administrative expenses	1,563	1,440	5,519	4,521
Impairment charges	5,283	-	5,283	-
Loss from operations	(8,113)	(1,211)	(11,082)	(3,790)
Interest and other income, net	-	6	32	22
Loss before income tax provision	(8,113)	(1,205)	(11,050)	(3,768)
Provision for income taxes	-	-	-	-
Net loss	$ (8,113)	$ (1,205)	$ (11,050)	$ (3,768)
Net loss available to common stockholders per share:				
Basic and diluted	$ (0.04)	$ (0.01)	$ (0.05)	$ (0.02)
Weighted average shares outstanding:				
Basic and diluted	230,293,141	206,157,409	230,293,141	204,302,897

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)

	Nine Months Ended September 30,	
	2010	**2009**
Cash flows from operating activities		
Net loss	$ (11,050)	$ (3,768)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	967	878
Stock option compensation	51	89
Impairment of goodwill and other intangible assets	5,283	-
Inventory reserve	1,620	-
Changes in operating assets and liabilities:		
Accounts receivable	(178)	(65)
Inventories	(1,409)	(1,051)
Prepaid expenses and other current assets	(45)	36
Accounts payable and accrued expenses	1,054	251
Net cash used in operating activities	(3,707)	(3,630)
Cash flows from investing activities		
Purchases of property and equipment	(1,070)	(862)
Increase in deposit and other assets	-	(189)
Net cash used in investing activities	(1,070)	(1,051)
Cash flows from financing activities		
Proceeds from private placements, net of issuance costs	-	3,193
Net cash used in investing activities	-	3,193
Net change in cash	(4,777)	(1,488)
Cash, beginning of period	4,973	3,095
Cash, end of period	$ 196	$ 1,607
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
September 30, 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 September 30, 2010 and for the three and nine months ended September 30, 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 periods ended September 30, 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 with the SEC 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 had losses from operations of $11,050,000 and negative cash flows from operations of $3,707,000 during the nine months ended September 30, 2010, an accumulated deficit of $22,215,000 and limited cash to fund its future operations. Management anticipates that the Company will sustain further losses through the fourth quarter of 2010 and require additional capital to supplement operations. Thus far, the Company has been able to finance its operating losses through a series of equity issuances. Nevertheless, there is no assurance that the Company will be able to finance any future operating losses and as such, there is substantial doubt about the Company's ability to continue as a going concern. The Company's financial condition deteriorated rapidly during the quarter ended September 30, 2010. Management is actively seeking various sources of financing;

however, there are no assurances that any such financing can be obtained on favorable terms, if at all. Cardo's management and board of directors have met frequently during the quarter ended September 30, 2010 and through the date of this filing to contemplate the steps by which management will follow to maintain operations without business interruptions.

During October and November 2010, the Company's management took the following measures:

- terminated over half of the Company's employees;
- had the Company's Chief Executive Officer and President forego their salaries;
- reduced office space by not renewing the corporate headquarters facility lease;
- scaled back research and development activities;
- deferred manufacturing of inventories required to build additional base-level implant banks; and
- engaged an investnent adviser to assist it in seeking alternative sources of capital; including selling of some or all of the Company's assets and other strategic alternatives.

Management continues to closely monitor its operating costs to conserve cash until additional funds become available through financing or operating activities.

Due to the Company's financial condition and continued inability to raise sufficient funds in order to fully execute a profitable sales strategy, the Company evaluated the carrying amounts of the Company's goodwill and other intangible assets for recoverability. Based on the results of these tests, management determined that the fair values of these assets were less than their respective carrying values. As such, impairment charges totaling $5,283,000 were charged to operations during the quarter ended September 30, 2010. Additionally, Cardo's management evaluated the net realizable value of its inventories and, based on reduced future projected revenues, recorded an inventory reserve of $1,620,400 at September 30, 2010.

In view of the matters described above, recoverability of a major portion of the recorded asset amounts shown in the accompanying consolidated 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.

Inventory

Inventory is stated at the lower of cost or net realizable value. 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 currently in production. Finished goods are completed knee, spine and hip replacement products ready for sales to customers.

At each balance sheet date, the Company evaluates its ending inventories for excess quantities and obsolescence. This evaluation includes an analysis of sales levels by product type. Among other factors, the Company considers 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. Management recorded an excess inventory reserve of $1,620,400 during the quarter ended September 30, 2010. Cardo did not have any inventory considered by management to be excess or obsolete as of December 31, 2009.

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 the Company 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 indicate that the carrying amount of the assets may not be recoverable. Cardo conducts its annual evaluations for impairment at the end of the fourth quarter of each year. The Company concluded that there were no such events or changes in circumstances during 2009; however, during the quarter ended September 30, 2010, the changes in Cardo's financial condition and continued inability to raise sufficient funds in order to fully execute a profitable sales strategy indicated the carrying values of its goodwill and other intangible assets may not be recoverable. Goodwill impairment testing is based on a two step process, where the first step compares the fair value of the reporting unit to the carrying value of the unit. If the first step test indicates impairment, the second step test 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 assessments performed for the year ended December 31, 2009, the Company 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.

During the quarter ended September 30, 2010, Cardo's management performed an assessment of its goodwill and other intangible assets for impairment. The Company's management determined that the fair value of the knee and hip reporting units were not in excess of the corresponding assets' carrying value as of September 30, 2010 and recorded a non-cash impairment charge of $4,050,000 during the quarter then ended. In addition, management recorded a non-cash impairment charge of $1,233,000 against the goodwill associated with the knee and hip reporting units.

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 September 30, 2010, the Company had two customers that accounted for 28.6% and 10.3%, respectively, of its accounts receivable. As of December 31, 2009, the Company had four customers that accounted for 28.2%, 15.6%, 15.4% and 10.0%, respectively, of its accounts receivable.

The Company had four customers that comprised 20.5%, 14.0%, 13.4% and 11.4%, respectively, of the Company's net sales for the three months ended September 30, 2010. The Company had two customers that comprised 45.3%, and 28.7%, respectively, of the Company's net sales for the three months ended September 30, 2009.

The Company had three customers that comprised 17.6%, 14.9% and 14.0%, respectively, of the Company's net sales for the nine months ended September 30, 2010. The Company had three customers that comprised 31.2%, 26.6%, and 14.9%, respectively, of the Company's net sales for the nine months ended September 30, 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)	September 30, 2010	December 31, 2009
	(Unaudited)	
Packaging materials	$ 85	$ 24
Work in process	927	360
Finished goods	3,653	2,872
	4,665	3,256
Less: inventory reserve	(1,620)	-
	$ 3,045	$ 3,256

During the quarter ended September 30, 2010, the Company's recorded an inventory reserve of $1,620,400 to reflect excess inventory on-hand or in-process implant components as of September 30, 2010. Of this amount, $567,000 was allocable to Cardo's Recon Division and $1,053,400 was allocable to Cardo's Spine Division. The inventory reserve is included with inventory usage in cost of goods sold in the accompanying condensed consolidated statements of operations for the three and nine months ended September 30, 2010.

NOTE 3 — GOODWILL AND INTANGIBLE ASSET IMPAIRMENT

In 2008, the Company completed the acquisition of the Uni, Cervical and Accelerated minority interests, which were accounted for using the purchase accounting method. The transactions resulted in the following goodwill and intangible assets as of December 31, 2008 and 2009.

(in thousands)	Uni	Cervical	Accelerated	Total
Estimated fair value of tangible net assets acquired	$ 15	$ (19)	$ 786	$ 782
In-process research and development	-	-	938	938
Other tangible assets	2,034	-	3,293	5,327
Goodwill	-	1,457	1,233	2,690
Total purchase price	$ 2,049	$ 1,438	$ 6,250	$ 9,737

Other intangible assets identified in the transactions related to a royalty agreement, developed technology and customer relationships. These assets belong in the knee and hip reporting units under the Reconstructive segment. The goodwill resulting from the acquisition of Accelerated belongs in the knee and hip reporting units and the goodwill resulting from the acquisition of Cervical belongs in the internally developed reporting unit under the Spine segment. The amounts allocated to in-process research and development for Accelerated were recorded as research and development expenses in the consolidated statement of operations during the year ended December 31, 2008. Goodwill associated with the purchase of Cervical was deemed to be impaired and written off during the year ended December 31, 2008.

During the quarter ended September 30, 2010, due to the Company's financial condition and continued inability to raise sufficient funds in order to fully execute a profitable sales strategy, the Company determined an interim impairment test was necessary. Based upon the assessments, it was determined that the fair value of the Company's knee and hip reporting units were below their respective assets' carrying values at September 30, 2010. Accordingly, the Company recognized a non-cash goodwill impairment charge of $1,233,000 and an impairment charge to its

other intangible assets of $4,050,000 in the accompanying condensed consolidated statements of operations for the three and nine months ended September 30, 2010. As a result of these impairment charges, the goodwill and other intangible assets had no remaining book value as of September 30, 2010. There was no income tax effect as the corresponding income tax assets were offset by a full valuation account.

NOTE 4 — 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 nine months ended September 30, 2010 and 2009 in the accompanying condensed consolidated statements of operations amounted to $51,082 and $89,562, respectively. Stock option compensation recognized for the three months ended September 30, 2010 and 2009 in the accompanying condensed consolidated statements of operations amounted to $15,486 and $27,105, 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 incorporates 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 September 30, 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	(69,600)	$	0.23			
Outstanding at September 30, 2010 (unaudited)	1,966,400	$	0.23	7.92	$	334,288
Exercisable at September 30, 2010 (unaudited)	589,920	$	0.23	7.92	$	100,286

The aggregate intrinsic value represents the closing stock price as of September 30, 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 Equity Incentive Plan (the "2010 Incentive Plan"), which was voted on and approved by the Company's stockholders at the Annual Meeting held on June 16, 2010. The 2010

Incentive Plan authorizes the Company to grant up to 23,000,000 incentive stock options, stock appreciation rights, restricted stock grants, restricted stock units, performance shares, performance units or cash awards. As of the date of this filing, no awards have been granted under the 2010 Incentive Plan.

NOTE 5 — STOCKHOLDERS' EQUITY

The Company's authorized capital consists of 750,000,000 shares of common stock and 50,000,000 shares of preferred stock. The Company's preferred stock may be designated into series pursuant to authority granted by its Certificate of Incorporation, and on approval from its Board of Directors. As of September 30, 2010, the Company did not have any preferred stock issued.

NOTE 6 — 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, and 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.

Prior to September 30, 2010, the Company's Reconstructive Division included $1,233,000 of goodwill and $4,050,000 in other intangible assets, net of amortization, relating to the Company's unicompartmental knee and hip products. These assets were determined by Cardo's management to be fully impaired during the current quarter.

The following table sets forth financial information by reportable segment as of September 30, 2010 and for the three and nine months ended September 30, 2010 and 2009:

(In thousands)	Reconstructive Division	Spine Division	Corporate	Total
Nine Months Ended September 30, 2010 (unaudited)				
Net sales	$ 1,686	$ 1,064	$ -	$ 2,750
Total cost of sales and operating expenses	896	1,286	5,400	7,582
Depreciation and amortization	916	10	41	967
Impairment charges	5,283	-	-	5,283
Interest and other income, net	-	-	32	32
Net loss	$ (5,409)	$ (232)	$ (5,409)	$ (11,050)
Property and equipment acquisitions	$ 805	$ 135	$ 130	$ 1,070
Total assets	$ 4,257	$ 832	$ 554	$ 5,643
Nine Months Ended September 30, 2009 (unaudited)				
Net sales	$ 1,175	$ 139	$ -	$ 1,314
Total cost of sales and operating expenses	226	28	3,972	4,226
Depreciation and amortization	848	4	26	878
Interest and other income, net	-	-	22	22
Net income (loss)	$ 101	$ 107	$ (3,976)	$ (3,768)
Three Months Ended September 30, 2010 (unaudited)				
Net sales	$ 597	$ 174	$ -	$ 771
Total cost of sales and operating expenses	692	1,097	1,531	3,320
Depreciation and amortization	262	4	15	281
Impairment charges	5,283	-	-	5,283
Interest and other income, net	-	-	-	-
Net loss	$ (5,640)	$ (927)	$ (1,546)	$ (8,113)
Three Months Ended September 30, 2009 (unaudited)				
Net sales	$ 351	$ 85	$ -	$ 436
Total cost of sales and operating expenses	76	8	1,250	1,334
Depreciation and amortization	303	2	8	313
Interest and other income, net	-	-	6	6
Net income (loss)	$ (28)	$ 75	$ (1,252)	$ (1,205)

Included in cost of sales for the three and nine months ended September 30, 2010 in the Reconstructive Division is $567,000 of inventory reserves. Included in cost of sales for the three and nine months ended September 30, 2010 in the Spine Division is $1,053,400 of inventory reserves. 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.

NOTE 7 — SUBSEQUENT EVENTS

In November 2010, the Company entered into two secured promissory notes (collectively, the "Notes") with two individuals (collectively, the "Lenders"). The aggregate proceeds from the Notes were $500,000. One of the Lenders is the brother of the Company's Chief Executive Officer. The Notes mature on March 2, 2011 and March 4, 2011, respectively, which may be extended for up to 60 days by the Company, provided the Company gives the Lenders notice of such extension period at least two business days prior to the maturity date, and bear simple interest at 12%

per annum.

In connection with the Notes, the Company entered into a security agreement with each lender, in which the Company granted a security interest, up to the amount of the principal and interest, in all of the Company's right, title and interest in all of the Company's assets, other than its accounts receivable.

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 in conjunction 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.

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 Van Nuys, California. In connection with the consummation of the merger with clickNsettle.com, Inc. ("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 was 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., Over-the-Counter 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. 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. Management recorded an inventory reserve of $1,620,400 during the quarter ended September 30, 2010

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 indicate that the carrying amount of the assets may not be recoverable. We conduct our annual evaluations for impairment at the end of the fourth quarter of each year. We concluded that there were no such events or changes in circumstances during 2009; however, during the quarter ended September 30, 2010, the changes in our financial condition and continued inability to raise sufficient funds in order to fully execute a profitable sales strategy indicated

the carrying values of our goodwill and other intangible assets may not be recoverable. We conduct our annual evaluations for impairment at the end of the fourth quarter of each year. Goodwill impairment testing is based on a two step process, where the first step compares the fair value of the reporting unit to the carrying value of the unit. If the first step test indicates impairment, the second step test 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.

During the quarter ended September 30, 2010, management performed an assessment of our goodwill and other intangible assets for impairment. Our management determined that the fair value of the knee and hip reporting units were not in excess of the corresponding assets' carrying value as of September 30, 2010 and recorded a non-cash impairment charge of $4,050,000 during the quarter then ended. In addition, management recorded a non-cash impairment charge of $1,233,000 against the goodwill associated with the knee and hip reporting units.

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 September 30, 2010 as Compared to the Three Months Ended September 30, 2009.

The following is a comparison of the consolidated results of operations for Cardo for the three months ended September 30, 2010 and 2009:

(In thousands)	Three Months Ended September 30,		
	2010	2009	Variance
Net sales	$ 771	$ 436	$ 335
Cost of sales	1,789	84	1,705
Gross profit (loss)	(1,018)	352	(1,370)
Research and development expenses	249	123	126
Selling, general and administrative expenses	1,563	1,440	123
Impairment charges	5,283	-	5,283
Loss from operations	(8,113)	(1,211)	(6,902)
Interest and other income, net	-	6	(6)
Loss before income tax provision	(8,113)	(1,205)	(6,908)
Provision for income taxes	-	-	-
Net loss	$ (8,113)	$ (1,205)	$ (6,908)

Revenues

During the quarter ended September 30, 2010, we generated revenues of $771,000 compared to $436,000 for the same period in 2009

. The $335,000 increase resulted from wider acceptance of our knee and spine products by orthopedic and back surgeons. We experienced significant growth in knee products sales, an increase of $177,000, in the current quarter as compared to 2009. This was primarily a result of sales from our total knee system. There were no such comparable total knee sales in 2009. Sales of our spine products also increased $89,000 in 2010 compared to 2009. We introduced the resale of interbody spinal devices during the 2010 first quarter, which was a major contributor to the increase in spine sales. There were no such comparable interbody sales in 2009. Hip sales increased $69,000 in 2010 compared to 2009 due to a new customer and higher sales volume. Our knee and hip products accounted for 61% of total sales during the three months ended September 30, 2010 compared to 79% in 2009.

Gross Profit

During the quarter ended September 30, 2010, we had cost of sales of $1,789,000, which

includes an inventory reserve of $1,620,000, compared to $84,000 during the quarter ended September 30, 2009. Our gross profit percentage, exclusive of the inventory reserve, was 78.4% during the three months ended September 30, 2010 compared to 80.7% for the same period in 2009. This slight decrease in 2010 was attributed to greater sales concentrations of total knee, spine and hip products which generate lower margins than other 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 may have an impact on the overall gross profit.

Research and Development Expenses

During the quarter ended September 30, 2010, we had research and development expenses of $249,000 compared to $123,000 for the same period in 2009. The increase in the current year is primarily a net result of direct labor allocations and increased volume of customized instrumentation created for surgeons offset by lower research costs

associated with certain hip and total knee products. Research and development activities will likely decrease during the 2010 fourth quarter and into 2011 as we continue to scale back our operations to optimize expenses.

Selling, General and Administrative Expenses

During the quarter ended September 30, 2010, we had selling general and administrative expenses of $6,846,000 compared to $1,440,000 in the same period of 2009, an increase of $5,406,000. The impairment charges related to our goodwill and other intangible assets accounted for $5,283,000 of the increase in 2010. Sales commissions increased by $83,000 in 2010 which was mostly consistent with our higher sales volume and some higher commission rates to certain distributors. Depreciation and amortization expense decreased by $33,000 in 2010 due to a fully amortized intangible asset and fully depreciated instruments. Professional fees were also lower in 2010 compared to 2009 as we began to defer corporate expansion projects. Travel to new and 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. Management will continue to explore various ways to optimize such overhead costs in the fourth quarter of 2010 and into 2011 as we continue our efforts to conserve working capital.

Impairment Charges

During the quarter ended September 30, 2010, our management assessed the recoverability of the carrying values of our goodwill and other intangible assets. Management determined that the fair value of the knee and hip reporting units were not in excess of the corresponding assets' carrying value as of September 30, 2010 and recorded a non-cash impairment charge of $4,050,000 during the quarter then ended. In addition, management recorded a non-cash impairment charge of $1,233,000 against the goodwill associated with the knee and hip reporting units.

Interest and Other Income

During the quarter ended September 30, 2010, we had nominal interest income compared to $6,000 during the same period in 2009

. Interest income is earned on our excess cash balances, which were significantly higher in the third quarter of 2009.

Results of Operations for the Nine Months Ended September 30, 2010 as Compared to the Nine Months Ended September 30, 2009.

The following is a comparison of the consolidated results of operations for Cardo for the nine months ended September 30, 2010 and 2009:

(In thousands)	Nine Months Ended September 30,		
	2010	**2009**	**Variance**
Net sales	$ 2,750	$ 1,314	$ 1,436
Cost of sales	2,182	254	1,928
Gross profit	568	1,060	(492)
Research and development expenses	848	329	519
Selling, general and administrative expenses	5,519	4,521	998
Impairment charges	5,283	-	5,283
Loss from operations	(11,082)	(3,790)	(7,292)
Interest and other income, net	32	22	10
Loss before income tax provision	(11,050)	(3,768)	(7,282)
Provision for income taxes	-	-	-

Net loss	$ (11,050)	$ (3,768)	$ (7,282)

Revenues

During the nine months ended September 30, 2010, we generated revenues of $2,750,000 compared to $1,314,000 for the same period in 2009

. The $1,436,000 increase primarily resulted from wider acceptance of our knee and spine products by orthopedic and back surgeons. We experienced substantial growth in spine sales, an increase of $924,000 in 2010 compared to 2009. We introduced the resale of interbody spinal devices during the 2010 first quarter, which was a major contributor to the increase in spine sales. There were no such comparable interbody sales in 2009. Additionally, our knee products sales increased $393,000 during 2010 compared to 2009. This was

primarily a result of sales from our total knee system. There were nominal comparable total knee sales in 2009. Hip sales increased $119,000 in 2010 compared to 2009 due to a new customer and higher sales volume. Our knee and hip products accounted for 61% of total sales during the nine months ended September 30, 2010 compared to 89% in 2009.

Gross Profit

During the nine months ended September 30, 2010, we had cost of sales of $2,182,000, which

includes an inventory reserve of $1,620,000, compared to $254,000 during the nine months ended September 30, 2009. Our gross profit percentage, exclusive of the inventory reserve, was 80.1% during the nine months ended September 30, 2010 compared to 80.7% for the same period in 2009. This slight decrease in 2010 was attributed to greater sales concentrations of total knee, spine and hip products which generate lower margins than other 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 may have an impact on the overall gross profit.

Research and Development Expenses

During the nine months ended September 30, 2010, we had research and development expenses of $848,000 compared to $329,000 for the same period in

2009. The increase in the current year is primarily a net result of direct labor allocations and increased volume of custom instruments created for surgeons offset by lower research costs associated with certain hip and total knee products. Research and development activities will likely decrease during the 2010 fourth quarter and into 2011 as we continue to scale back our operations to optimize expenses.

Selling, General and Administrative Expenses

During the nine months ended September 30, 2010, we had selling general and administrative expenses of $10,802,000 compared to $4,521,000 in the same period of

2009, an increase of $6,281,000. The impairment charges related to our goodwill and other intangible assets accounted for $5,283,000 of the increase in 2010. Sales commissions increased by $427,000 in 2010 which was driven by higher sales volume and commission rates on certain products. Depreciation and amortization expense increased by $89,000 in 2010 because of the acquisition of additional instrumentation required to support base inventory levels and continued sales increases offset a fully amortized intangible asset and fully depreciated instruments. Travel to new and prospective hospitals and industry conferences increased in 2010 along with rent and office expenses as we increase our office space and our overall business activity was greater than it was in 2009. In addition, professional and consulting fees increased $350,000 during the nine months ended September 30, 2010 compared to 2009 as a result of exploring strategic opportunities, expanding corporate activities and more regulatory filings in the first two quarters of 2010. Management will continue to explore various ways to optimize such overhead costs in the fourth quarter of 2010 and into 2011 as we continue our efforts to conserve working capital.

Impairment Charges

During the quarter ended September 30, 2010, our management assessed the recoverability of the carrying values of our goodwill and other intangible assets. Management determined that the fair value of the knee and hip reporting units were not in excess of the corresponding assets' carrying value as of September 30, 2010 and recorded a non-cash impairment charge of $4,050,000 during the quarter then ended. In addition, management recorded a non-cash impairment charge of $1,233,000 against the goodwill associated with the knee and hip reporting units.

Interest and Other Income

During the nine months ended September 30, 2010, we had interest income of $10,000 compared to $22,000 during the same period in 2009

. Interest income is earned on our excess cash balances, which were lower in 2010. We sold some instruments which resulted in $22,000 of other income during the nine months ended September 30, 2010.

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 the Company's unicompartmental knee, patellofemoral products, and 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 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 of the unique characteristics of this product line, the Spine Division is considered by management as a separate segment.

Prior to September 30, 2010, our Reconstructive Division included $1,233,000 of goodwill and $4,050,000 in other intangible assets, net of amortization, relating to our unicompartmental knee and hip products. These assets were determined by our management to be fully impaired during the current quarter.

The following table sets forth summarized financial results by reportable segment for the three and nine months ended September 30, 2010 and 2009:

(In thousands)	Reconstructive Division	Spine Division	Corporate	Total
Nine Months Ended September 30, 2010 (unaudited)				
Net sales	$ 1,686	$ 1,064	$ -	$ 2,750
Total cost of sales and operating expenses	896	1,286	5,400	7,582
Depreciation and amortization	916	10	41	967
Impairment charges	5,283	-	-	5,283
Interest and other income, net	-	-	32	32
Net loss	$ (5,409)	$ (232)	$ (5,409)	$ (11,050)
Nine Months Ended September 30, 2009 (unaudited)				
Net sales	$ 1,175	$ 139	$ -	$ 1,314
Total cost of sales and operating expenses	226	28	3,972	4,226
Depreciation and amortization	848	4	26	878
Interest and other income, net	-	-	22	22
Net income (loss)	$ 101	$ 107	$ (3,976)	$ (3,768)
Three Months Ended September 30, 2010 (unaudited)				
Net sales	$ 597	$ 174	$ -	$ 771
Total cost of sales and operating expenses	692	1,097	1,531	3,320
Depreciation and amortization	262	4	15	281
Impairment charges	5,283	-	-	5,283
Interest and other income, net	-	-	-	-
Net loss	$ (5,640)	$ (927)	$ (1,546)	$ (8,113)
Three Months Ended September 30, 2009 (unaudited)				

Net sales	$ 351	$ 85	$ -	$ 436
Total cost of sales and operating expenses	76	8	1,250	1,334
Depreciation and amortization	303	2	8	313
Interest and other income, net	-	-	6	6
Net income (loss)	$ (28)	$ 75	$ (1,252)	$ (1,205)

Included in cost of sales for the three and nine months ended September 30, 2010 in the Reconstructive Division is $567,000 of inventory reserves. Included in cost of sales for the three and nine months ended September 30, 2010 in the Spine Division is $1,053,400 of inventory reserves. 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 $3,707,000 for the nine months ended September 30, 2010 compared to $3,630,000 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 approximately $1.4 million during the current year.

Net cash used in investing activities was $1,070,000 for the nine months ended September 30, 2010 compared to $1,051,000 for the same period in 2009. The cash used for investment activities during 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 nine months ended September 30, 2010 compared to $3,193,000 in 2009. The prior year amount reflects the net proceeds from two equity investment transactions. Our working capital at September 30, 2010 along with the subsequently received proceeds of $500,000 from two promissory notes should allow us to meet our cash needs through the remainder of 2010. Refer to Note 7 of our condensed consolidated financial statements included in Item 1 for a description of the two promissory notes. One of the individual lenders of the promissory notes is the brother of our Chief Executive Officer.

Our available funds are not projected to meet all of our working capital needs for the next twelve months. We anticipate that we will sustain further losses through the fourth quarter of 2010, and require additional capital to supplement operations which creates substantial doubt about our ability to continue as a going concern. Management is actively seeking various sources of financing; however, there are no assurances that any such financing can be obtained on favorable terms, if at all. During October and November 2010, the Company's management took the following measures:

- terminated over half of the Company's employees;
- had the Company's Chief Executive Officer and President forego their salaries;
- reduced office space by not renewing the corporate headquarters facility lease;
- scaled back research and development activities;
- deferred manufacturing of inventories required to build additional base-level implant banks; and
- engaged an investment adviser to assist it in seeking alternative sources of capital, including selling of some or all of the Company's assets and other strategic alternatives

Management is closely monitoring its operating costs to conserve cash until additional funds become available through financing or operating activities.

There can be no assurance that our efforts to obtain alternative sources of capital, including selling of some or all of the Company's assets and other strategic alternatives will be successful or that the terms of such alternative sources of capital, even if available, will be on terms acceptable to us. Our ability to continue as a going concern is dependent upon receiving additional funds through one or more of these measures. If we are unable to fund our cash flow needs, in order to continue our operations we will have to further reduce or scale back our operations, eliminate our research and development programs, 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 and includes 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. Additional risks include the effects on our operations and financial results of reducing our workforce in our sales and marketing functions, the amount and timing of expenses associated with our workforce reduction, whether we may have to lay off additional employees, whether we may have to further scale back or cease our operations, whether we are able to identify and successfully consummate any strategic or liquidity alternatives, and the impact of our current liquidity and financial uncertainty on customers and vendors and their willingness to continue to conduct business with us on the same terms or at all.

ITEM 4 — 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 September 30, 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 September 30, 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 **

*

Filed herewith

**

Furnished herewith

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.

November 22, 2010	By:	/s/ Andrew A. Brooks Andrew A. Brooks Chief Executive Officer (Principal Executive Officer)
November 22, 2010	By:	/s/ Derrick Romine Derrick Romine Chief Financial Officer (Principal Financial and Accounting Officer)

INDEX TO EXHIBITS

Exhibit Number	Exhibit Title