

Cellular Biomedicine Group, Inc.  
Form 10-Q  
May 15, 2015

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

FORM 10-Q

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

For the quarterly period ended March 31, 2015

OR

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

Commission File Number 001-36498

CELLULAR BIOMEDICINE GROUP, INC.  
(Exact name of registrant as specified in its charter)

Delaware	86-1032927
State	IRS
of Incorporation	Employer Identification
	No.

530 University Avenue, #17  
Palo Alto, California 94301  
(Address of principal executive offices)

(650) 566-5064  
(Registrant's telephone number)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ 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 than 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, or a non-accelerated filer. See definition of "accelerated filer," and "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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Large accelerated filer	<input type="radio"/>	Accelerated filer	<input type="radio"/>
Non-accelerated filer	<input type="radio"/>	Smaller reporting company	<input checked="" type="radio"/>

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

As of May 5, 2015, there were 11,514,961 shares of common stock, par value \$.001 per share issued and outstanding.

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## PART I – FINANCIAL INFORMATION

## Item 1. Condensed Consolidated Financial Statements (Unaudited)

CELLULAR BIOMEDICINE GROUP, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)  
AS OF MARCH 31, 2015 AND DECEMBER 31, 2014

	March 31, 2015	December 31, 2014
<b>Assets</b>		
Cash and cash equivalents	\$31,144,667	\$14,770,584
Accounts receivable	339,973	141,029
Other receivables	190,919	135,957
Inventory	277,868	372,249
Prepaid expenses	641,906	565,299
Other current assets	-	110,347
Total current assets	32,595,333	16,095,465
Investments	4,187,676	6,886,033
Property, plant and equipment, net	1,382,983	1,280,410
Goodwill	7,678,789	7,678,789
Intangibles, net	10,868,067	11,156,676
Long-term prepaid expenses and other assets	1,226,054	587,729
Total assets (1)	\$57,938,902	\$43,685,102
<b>Liabilities and Stockholders' Equity</b>		
<b>Liabilities:</b>		
Accounts payable	\$160,174	\$426,917
Accrued expenses	2,216,612	2,074,384
Taxes payable	588,233	814,288
Advances payable to related party	-	36,254
Other current liabilities	2,066,895	724,479
Total current liabilities	5,031,914	4,076,322
Other non-current liabilities	239,328	452,689
Total liabilities (1)	5,271,242	4,529,011
<b>Commitments and Contingencies (note 14)</b>		
<b>Stockholders' equity:</b>		
Preferred stock, par value \$.001, 50,000,000 shares authorized; none issued and outstanding as of March 31, 2015 and December 31, 2014, respectively	-	-
	11,514	10,990

Common stock, par value \$.001, 300,000,000 shares authorized; 11,514,021 and 10,990,335 issued and outstanding as of March 31, 2015 and December 31, 2014, respectively

Additional paid in capital	95,814,194	75,467,316
Accumulated deficit	(42,177,761)	(37,890,590)
Accumulated other comprehensive income (loss)	(980,287 )	1,568,375
Total stockholders' equity	52,667,660	39,156,091
Total liabilities and stockholders' equity	\$57,938,902	\$43,685,102

(1) The Company's consolidated assets as of March 31, 2015 and December 31, 2014 included \$5,533,855 and \$5,508,459, respectively, of assets of variable interest entities, or VIEs, that can only be used to settle obligations of the VIEs. Each of the following amounts represent the balances as of March 31, 2015 and December 31, 2014, respectively. These assets include cash and cash equivalents of \$2,674,321 and \$3,496,678; accounts receivable of \$339,973 and \$141,029; other receivables of \$141,189 and \$127,280; inventory of \$118,660 and \$215,152; prepaid expenses of \$259,015 and \$193,613; other current assets of \$ nil and \$109,777; property, plant and equipment, net, of \$1,178,703 and \$1,055,648; intangibles of \$39,674 and \$42,779; and long-term prepaid expenses and other assets of \$782,320 and \$126,503. The Company's consolidated liabilities as of March 31, 2015 and December 31, 2014 included \$1,318,488 and \$1,434,826, respectively, of liabilities of the VIEs whose creditors have no recourse to the Company. These liabilities include accounts payable of \$53,262 and \$10,572; other payables of \$628,076 and \$714,309; payroll accrual of \$414,103 and \$273,599; and other non-current liabilities of \$223,047 and \$436,346. See further description in Note 4, Variable Interest Entities.

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

CELLULAR BIOMEDICINE GROUP, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS  
(UNAUDITED)  
FOR THE THREE MONTHS ENDED MARCH 31, 2015 AND 2014

	For the Three Months Ended March 31,	
	2015	2014
Net sales and revenue	\$603,390	\$61,051
Operating expenses:		
Cost of sales	458,984	40,600
General and administrative	3,483,866	1,382,513
Selling and marketing	101,407	21,359
Research and development	734,484	498,147
Impairment of investments	123,428	-
Total operating expenses	4,902,169	1,942,619
Operating loss	(4,298,779 )	(1,881,568)
Other income (expense):		
Interest income	15,111	225
Other income (expense)	(2,703 )	20,137
Total other income	12,408	20,362
Loss from continuing operations before taxes	(4,286,371 )	(1,861,206)
Income taxes provision	(800 )	-
Loss from continuing operations	(4,287,171 )	(1,861,206)
Profit on discontinued operations, net of taxes	-	1,414,675
Net loss	\$(4,287,171 )	\$(446,531 )
Other comprehensive income (loss):		
Cumulative translation adjustment	19,609	(11,813 )
Unrecognized loss on investments	(2,568,271 )	(521,448 )
Total other comprehensive loss:	(2,548,662 )	(533,261 )
Comprehensive loss	\$(6,835,833 )	\$(979,792 )
Loss per share for continuing operations:		
Basic	\$(0.39 )	\$(0.25 )
Diluted	\$(0.39 )	\$(0.25 )
Earnings per share for discontinued operations:		
Basic	\$-	\$0.19
Diluted	\$-	\$0.19

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Net loss per share:

Basic	\$ (0.39	)	\$ (0.06	)
Diluted	\$ (0.39	)	\$ (0.06	)

Weighted average common shares outstanding:

Basic	11,039,208	7,494,815
Diluted	11,039,208	7,494,815

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

CELLULAR BIOMEDICINE GROUP, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(UNAUDITED)  
FOR THE THREE MONTHS ENDED MARCH 31, 2015 AND 2014

	For the Three Months Ended March 31,	
	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$(4,287,171 )	\$(446,531 )
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	439,242	217,064
Loss on disposal of assets	-	12,313
Stock based compensation expense	1,719,458	279,445
Amortisation of deferred stock compensation	-	35,358
Other than temporary impairment on investments	123,428	-
Realized losses from sale of investments	5,178	5,203
Value of stock received for services	-	(1,610,000)
Changes in operating assets and liabilities:		
Accounts receivable	(198,944 )	(24,000 )
Other receivables	(38,463 )	(72,382 )
Inventory	94,381	(14,570 )
Prepaid expenses	(81,602 )	(120,425 )
Other current assets	110,346	3,357
Investments	-	5,200
Long-term prepaid expenses and other assets	(44,340 )	(300,186 )
Accounts payable	(266,744 )	(36,524 )
Accrued expenses	142,276	(217,100 )
Advances payable to related party	(30,216 )	-
Other current liabilities	346,585	(95,567 )
Taxes payable	(226,055 )	-
Other non-current liabilities	(213,254 )	-
Net cash used in operating activities	(2,405,895 )	(2,379,345)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceed from sale of investments, net of issuance cost paid	1,480	-
Purchases of intangibles	(569,828 )	-
Purchases of assets	(179,293 )	(19,342 )
Net cash used in investing activities	(747,641 )	(19,342 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net proceeds from the issuance of common stock	19,564,846	1,221,980
Proceeds from exercise of stock options	26,590	-
Repayment of advance from affiliate	-	(33,457 )
Net cash provided by financing activities	19,591,436	1,188,523



EFFECT OF EXCHANGE RATE CHANGES ON CASH	(63,817 )	(7,747 )
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	16,374,083	(1,217,911)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	14,770,584	7,175,215
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$31,144,667	\$5,957,304

#### SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid for income taxes	\$(226,855 )	\$-
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The accompanying notes are an integral part of these condensed consolidated financial statements.

CELLULAR BIOMEDICINE GROUP, INC.  
FOR THE THREE MONTHS ENDED March 31, 2015 AND 2014  
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – DESCRIPTION OF BUSINESS

As used in this quarterly report, "we", "us", "our", "CBMG", "Company" or "our company" refers to Cellular Biomedicine Group, Inc. and, unless the context otherwise requires, all of its subsidiaries and variable interest entities.

Overview

Cellular Biomedicine Group, Inc. is a biomedicine company, principally engaged in the development of new treatments for cancerous and degenerative diseases utilizing proprietary cell-based technologies. Our technology includes two major cell platforms: (i) Immune Cell therapy for treatment of a broad range of cancers using Tcm, TCR clonality, Chimeric Antigen Receptor T cell ("CAR-T") and anti-PD-1 technologies, and (ii) human adipose-derived mesenchymal progenitor cells ("haMPC") for treatment of joint and autoimmune diseases, with primary research and manufacturing facilities in China.

We are focused on developing and marketing safe and effective cell-based therapies based on our cellular platforms, to treat serious chronic and degenerative diseases such as cancer, orthopedic diseases (including osteoarthritis and tissue damage), various inflammatory diseases and metabolic diseases. We have developed proprietary practical knowledge in the use of cell-based therapeutics that we believe could be used to help a great number of people suffering from cancer and other serious chronic diseases. We are conducting clinical studies in China for two stem cell based therapies to treat knee osteoarthritis ("KOA") and Cartilage Defect ("CD"). We have initiated preclinical studies in Asthma, and Chronic Obstructive Pulmonary Disease ("COPD").

Our primary target market is Greater China. We believe that the results of our research studies and the acquired knowhow and clinical data will support expanded preclinical and clinical trials with a larger population of patients, which we expect to carry out through authorized treatment centers throughout Greater China. With the recent acquisition of Agreen Biotech Co. Ltd. ("AG"), we now generate technical services revenue comprised of T Cells Receptor ("TCR") clonality analysis technology and T Central Memory Cell ("Tcm") and Dendritic Cell ("DC") preparation methodologies. AG is a biotech company with operations in China, engaged in the development of treatments for cancerous diseases utilizing proprietary cell technologies, which include preparation of subset T Cell and clonality assay platform technology for treatment of a broad range of cancers by AG's primary hospital partner, Jilin Hospital. With recent build-up of our Tcm, TCR clonality, CAR-T and anti-PD-1 technologies we plan to evaluate and prioritize our cancer clinical trial indications for commercialization using safe and most effective therapy or combination therapies. We plan to integrate CBMG's state-of-the art infrastructure and clinical platform with the aforementioned acquired technologies to boost the Company's Immuno-Oncology presence, and pave the way for future partnerships. We plan to initiate certain cancer clinical trials in China upon receiving acceptance of the clinical trial designs with the principal investigator and obtaining the requisite approvals. We have yet to derive revenue from our CAR-T or anti-PD-1 technologies.

Corporate History

Cellular Biomedicine Group, Inc., (formerly known as EastBridge Investment Group Corporation) was originally incorporated in the State of Arizona on June 25, 2001 under the name ATC Technology Corporation. ATC Technology Corporation changed its corporate name to EastBridge Investment Group Corporation in September 2005 and changed its business focus to providing investment related services in Asia, with a strong focus on high GDP growth countries, such as China. The Company provides consulting services necessary for small to medium-sized

companies to obtain capital to grow their businesses. The Company assists its clients in locating investment banking, financial advisory and other financial services necessary to become public companies in the United States or find joint venture partners or raise capital to expand their businesses.

On November 13, 2012, EastBridge Investment Group Corporation, an Arizona corporation (“EastBridge”), CBMG Acquisition Limited, a British Virgin Islands company and the Company’s wholly-owned subsidiary (“Merger Sub”) and Cellular Biomedicine Group Ltd. (“CBMG BVI”), a British Virgin Islands company, entered into a Merger Agreement, pursuant to which CBMG BVI was the surviving entity in a merger with Merger Sub whereby CBMG BVI became a wholly-owned subsidiary of the Company (the “Merger”). The Merger was consummated on February 6, 2013 (the “Closing Date”). Upon consummation of the Merger, CBMG BVI shareholders were issued 3,638,941 shares of common stock, par value \$0.001 per share, of the Company (the “Company Common Stock”) constituting approximately 70% of the outstanding stock of the Company on a fully-diluted basis and the then current Company shareholders retained approximately 30% of the Company on a fully-diluted basis. Specifically, each of CBMG BVI’s ordinary shares (“CBMG BVI Ordinary Shares”) were converted into the right to receive 0.020019 shares of Company Common Stock.

Also in connection with the Merger, the Company created a new Delaware subsidiary named EastBridge Investment Corp. (“EastBridge Sub”). Pursuant to a Contribution Agreement by and between the Company and EastBridge Sub dated February 5, 2013, the Company contributed all of its then current assets and liabilities to EastBridge Sub which continued the business and operations of the Company at the subsidiary level. A copy of the Contribution Agreement is attached as Exhibit 10.1 to the Current Report on Form 8-K filed by the Company on February 12, 2013.

As a result of the Merger, CBMG BVI and EastBridge Sub became the two direct subsidiaries of the Company.

In connection with the Merger, effective March 5, 2013, the Company (formerly named “EastBridge Investment Group Corporation”) changed its name to “Cellular Biomedicine Group, Inc.” In addition in March 2013, the Company changed its corporate headquarters to 530 University Avenue in Palo Alto, California.

From February 6, 2013 to June 23, 2014, we operated the Company in two separate reportable segments: (i) Biomedicine Cell Therapy (“Biomedicine”); and (ii) Financial Consulting (“Consulting”). The Consulting segment was conducted through EastBridge Sub. On June 23, 2014, the Company announced the discontinuation of the Consulting segment as it no longer fit into management’s long-term strategy and vision. The Company is now focusing resources on becoming a biotechnology company bringing therapies to improve the health of patients in China.

On September 26, 2014, the Company completed its acquisition of Agreen Biotech Co. Ltd. (“AG”) and the U.S. patent held by AG’s founder.

AG is a biotech company with operations in China, engaged in the development of treatments for cancerous diseases utilizing proprietary cell technologies, which include without limitation, preparation of subset T Cell and clonality assay platform technology for treatment of a broad range of cancers by AG’s served hospital, Jilin Hospital.

AG is focused on developing and marketing its technical service and test kits to hospitals that treat cancer patients who are undergoing immune cell therapy classified as 3rd Medical Technology by regulatory agencies in China. We have developed proprietary practical knowledge in the use of cell-based therapeutics that we believe could be used to help a great number of people suffering from cancer. Specifically, we provide technical services comprised of T Cell Receptors (“TCR”) clonality analysis technology and T Central Memory Cell (“Tcm”) and Dendritic Cell (“DC”) preparation methodologies. The TCR clonality analysis technology is based on the use of the multiple sets of unique primers to amplify 22 regions of the TCR and thereby detect clonal expansions related to antigen stimulation of the immune system, which enables the assessment of tumor specific immunity with high accuracy and efficiency. Tcm cells are the subpopulation of T lymphocytes with key characteristics including high potency and long-term memory of specific immunity; and they are the key element of immunocellular fortification against tumors, infections and immune disorders. The Tcm cells are drawn from the cancer patient’s own blood and the therapy using these cells is classified in China as Medical Technology, which enables such therapy to be covered by medical insurance in more than ten provinces in China.

AG’s primary market is China. Jilin Hospital, AG’s primary hospital partner, currently uses AG’s technical services and test kits to treat patients who are undergoing cancer immune cell therapy in China.

## NOTE 2 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial information and the rules and regulations of the Securities and Exchange Commission (“SEC”) for reporting on Form 10-Q. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements herein. The unaudited Condensed Consolidated Financial Statements herein should be read in conjunction with the historical consolidated financial statements of the Company for the years ended December 31, 2014 and 2013 included in our Annual Report on Form 10-K for the year ended December 31, 2014. Operating results for the three months ended March 31, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015.



## Principles of Consolidation

Our unaudited condensed consolidated financial statements reflect all adjustments, which are, in the opinion of management, necessary for a fair presentation of our financial position and results of operations. Such adjustments are of a normal recurring nature, unless otherwise noted. The balance sheet as of March 31, 2015 and the results of operations for the three months ended March 31, 2015 are not necessarily indicative of the results to be expected for any future period.

Our unaudited condensed consolidated financial statements are prepared in accordance with U.S. GAAP. These accounting principles require us to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. We believe that the estimates, judgments and assumptions are reasonable, based on information available at the time they are made. Actual results could differ materially from those estimates.

## Recent Accounting Pronouncements

Recent accounting pronouncements that the Company has adopted or may be required to adopt in the future are summarized below.

In February 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2015-02, “Consolidation (Topic 810): Amendments to the Consolidation Analysis” (“ASU 2015-02”). The amendments in this update affect reporting entities that are required to evaluate whether they should consolidate certain legal entities. All legal entities are subject to reevaluation under the revised consolidation model. ASU 2015-02 is effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. We are currently in the process of evaluating the impact of the adoption of ASU 2015-02 on our consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers (Topic 606)” (“ASU 2014-09”). ASU 2014-09 supersedes the revenue recognition requirements in “Revenue Recognition (Topic 605)”, and requires entities to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is not permitted. We are currently in the process of evaluating the impact of the adoption of ASU 2014-09 on our consolidated financial statements.

In April 2014, the FASB issued ASU 2014-08. The amendments in this ASU modify the requirements for the reporting of discontinued operations. In order to qualify as a discontinued operation, the disposal of a component of an entity, a group of components, or a business of an entity must represent a strategic shift that has (or will have) a major effect on an entity’s operations and financial results. The ASU further indicates that the timing for recording a discontinued operation is when one of the following occurs: the component, group of components, or business meets the criteria to be classified as held-for-sale; the component, group of components, or business is disposed of by sale; or the component, group of components, or business is disposed of other than by sale (for example abandonment or spinoff). In addition, the ASU also requires additional disclosure items about an entity’s discontinued operations. The amendments are effective for us beginning on January 1, 2015. The amendments are to be applied prospectively solely to newly identified disposals that qualify as discontinued operations after the effective date. Items previously reported as discontinued operations will maintain their classification based on the prior guidance. Early adoption is permitted,

but only for disposals that have not been previously reported as discontinued operations in previously issued financial statements. We had adopted this amendments from January 1, 2015 and see note 3 for related disclosure.

#### NOTE 3 – DISCONTINUED OPERATIONS

On June 23, 2014, at a Board of Directors meeting, the Company approved the discontinuation of all activities of the Consulting segment. Accordingly, based on management's intent at June 30, 2014, the Company discontinued the Consulting segment.

The Company had liquidated all of the Consulting segment's remaining assets and settled all related liabilities as of December 31, 2014.

Amounts presented for the three months ended March 31, 2015 and 2014, have been reclassified to conform to the current presentation. The following table provides the amounts reclassified for the three months ended March 31, 2015 and 2014:

	Three Months Ended March 31,	
	2015	2014
Amounts reclassified:		
Consulting revenue	\$-	\$1,636,746
Consulting operating expenses	-	(207,206 )
Selling and marketing	-	(9,706 )
Other income (expense)	-	(5,159 )
Total amount reclassified as discontinued operations	\$-	\$1,414,675

#### NOTE 4 – VARIABLE INTEREST ENTITIES

VIEs are those entities in which a company, through contractual arrangements, bears the risk of, and enjoys the rewards normally associated with ownership of the entity, and therefore the Company is the primary beneficiary of the entity. Cellular Biomedicine Group Ltd (Shanghai) (“CBMG Shanghai”) and its subsidiaries are variable interest entities (VIEs), through which the Company conducts stem cell research and clinical trials in China. The shareholders of record for CBMG Shanghai are Cao Wei and Chen Mingzhe, who together own 100% of the equity interests in CBMG Shanghai. The initial capitalization and operating expenses of CBMG Shanghai are funded by our wholly foreign-owned enterprise (“WFOE”), Cellular Biomedicine Group Ltd. (Wuxi) (“CBMG Wuxi”). The registered capital of CBMG Shanghai is ten million RMB and was incorporated on October 19, 2011.

In February 2012, CBMG Wuxi provided financing to CBMG Shanghai in the amount of \$1,587,075 for working capital purposes. In conjunction with the provided financing, exclusive option agreements were executed granting CBMG Wuxi the irrevocable and exclusive right to convert the unpaid portion of the provided financing into equity interest of CBMG Shanghai at CBMG Wuxi’s sole and absolute discretion. CBMG Wuxi and CBMG Shanghai additionally executed a business cooperation agreement whereby CBMG Wuxi is to provide CBMG Shanghai with technical and business support, consulting services, and other commercial services. The shareholders of CBMG Shanghai pledged their equity interest in CBMG Shanghai as collateral in the event CBMG Shanghai does not perform its obligations under the business cooperation agreement.

The Company has determined it is the primary beneficiary of CBMG Shanghai by reference to the power and benefits criterion under ASC 810, Consolidation. This determination was reached after considering the financing provided by CBMG Wuxi to CBMG Shanghai is convertible into equity interest of CBMG Shanghai and the business cooperation agreement grants the Company and its officers the power to manage and make decisions that affect the operation of CBMG Shanghai.

There are substantial uncertainties regarding the interpretation, application and enforcement of PRC laws and regulations, including but not limited to the laws and regulations governing our business or the enforcement and performance of our contractual arrangements. See our Annual Report on Form 10-K for year ended December 31, 2014 and 2013. The Company has not provided any guarantees related to CBMG Shanghai and no creditors of CBMG Shanghai have recourse to the general credit of the Company.

As the primary beneficiary of CBMG Shanghai, the Company consolidates in its financial statements the financial position, results of operations, and cash flows of CBMG Shanghai, and all intercompany balances and transactions between the Company and CBMG Shanghai are eliminated in the condensed consolidated financial statements.



The Company has aggregated the financial information of CBMG Shanghai and its subsidiaries in the table below. The aggregate carrying value of assets and liabilities of CBMG Shanghai and its subsidiaries (after elimination of intercompany transactions and balances) in the Company's condensed consolidated balance sheets as of March 31, 2015 and December 31, 2014 are as follows:

	March 31, 2015	December 31, 2014
<b>Assets</b>		
Cash	\$2,674,321	\$3,496,678
Accounts receivable	339,973	141,029
Other receivables	141,189	127,280
Inventory	118,660	215,152
Prepaid expenses	259,015	193,613
Other current assets	-	109,777
Total current assets	3,533,158	4,283,529
Property, plant and equipment, net	1,178,703	1,055,648
Intangibles	39,674	42,779
Long-term prepaid expenses and other assets	782,320	126,503
Total assets	\$5,533,855	\$5,508,459
<b>Liabilities</b>		
Accounts payable	\$53,262	\$10,572
Other payables	628,076	714,309
Payroll accrual	414,103	273,599
Taxes payable	-	-
Total current liabilities	\$1,095,441	\$998,480
Other non-current liabilities	223,047	436,346
Total liabilities	\$1,318,488	\$1,434,826

**NOTE 5 – OTHER RECEIVABLES**

The Company pays deposits on various items relating to office expenses. Management has classified these deposits as receivables as the intention is to recover these deposits in less than 12 months. As of March 31, 2015 and December 31, 2014 the amounts of other receivables was \$190,919 and \$135,957, respectively.

**NOTE 6 – INVENTORY**

As of March 31, 2015 and December 31, 2014, inventory consisted of the following:

	March 31, 2015	December 31, 2014
Raw materials	\$ 146,935	\$ 128,665
Work in progress	-	89,164
Finished goods	130,933	154,420
	\$ 277,868	\$ 372,249

## NOTE 7 – PROPERTY, PLANT AND EQUIPMENT

As of March 31, 2015 and December 31, 2014, property, plant and equipment, carried at cost, consisted of the following:

## Fixed Asset Details

	March 31, 2015	December 31, 2014
Office equipment	\$17,014	\$16,842
Manufacturing equipment	1,551,723	1,518,718
Computer equipment	89,431	73,888
Leasehold improvements	1,454,734	1,414,475
Construction work in process	161,673	-
	3,274,575	3,023,923
Less: accumulated depreciation	(1,891,592)	(1,743,513)
	\$1,382,983	\$1,280,410

For the three months ended March 31, 2015 and 2014, depreciation expense was \$154,809 and \$130,392, respectively.

## NOTE 8 – INVESTMENTS

The Company's investments represent the investment in equity securities listed in Over-The-Counter ("OTC") markets of the United States of America:

	Cost	Gross Unrealized Gains/(losses)	Gross Unrealized Losses more than 12 months	Gross Unrealized Losses less than 12 months	Market or Fair Value
March 31, 2015					
Equity position in Alpha Lujo, Inc.	\$251,388	\$(45,425)	\$-	\$-	\$205,963
Equity position in Arem Pacific Corporation	5,030,000	(1,110,000)	-	-	3,920,000
Equity position in Wonder International Education & Investment Group Corporation	61,713	-	-	-	61,713
Total	\$5,343,101	\$(1,155,425)	\$-	\$-	\$4,187,676

	Cost	Gross Unrealized Gains/(losses)	Gross Unrealized Losses more than 12 months	Gross Unrealized Losses less than 12 months	Market or Fair Value
December 31, 2014					
Equity position in Alpha Lujo, Inc.	\$251,388	\$42,846	\$-	\$-	\$294,234
Equity position in Arem Pacific Corporation	5,030,000	1,370,000	-	-	6,400,000

Equity position in Wonder International Education & Investment Group Corporation					
	191,799	-	-	-	191,799
Total	\$5,473,187	\$1,412,846	\$-	\$-	\$6,886,033

Net proceeds from sale of investments for the three months ended March 31, 2015 and 2014 was \$1,480 and \$ nil, respectively. Net realized losses from sale of investments for the three months ended March 31, 2015 and 2014 was \$5,178 and \$ nil, respectively.

The unrealized holding loss for the investments that recognized in other comprehensive income for the three months ended March 31, 2015 and 2014 was \$2,568,271 and \$521,448, respectively.

The Company tracks each investment with an unrealized loss and evaluate them on an individual basis for other-than-temporary impairments, including obtaining corroborating opinions from third party sources, performing trend analysis and reviewing management's future plans. When investments have declines determined by management to be other-than-temporary the Company recognizes write downs through earnings. Other-than-temporary impairment of investments for the three months ended March 31, 2015 and 2014 was \$123,428 and \$ nil, respectively.

## NOTE 9 – FAIR VALUE ACCOUNTING

The Company has adopted ASC Topic 820, Fair Value Measurement and Disclosure, which defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. It does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. It establishes a three-level valuation hierarchy of valuation techniques based on observable and unobservable inputs, which may be used to measure fair value and include the following:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Classification within the hierarchy is determined based on the lowest level of input that is significant to the fair value measurement.

The carrying value of financial items of the Company including cash and cash equivalents, accounts receivable, other receivables, accounts payable and accrued liabilities, approximate their fair values due to their short-term nature and are classified within Level 1 of the fair value hierarchy. The Company's investments are classified within Level 2 of the fair value hierarchy because of the insufficient volatility of the three stocks traded in OTC market.

Assets measured at fair value within Level 2 on a recurring basis as of March 31, 2015 and December 31, 2014 are summarized as follows:

	Total	As of March 31, 2015 Fair Value Measurements at Reporting Date Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Equity position in Alpha Lujo, Inc.	\$205,963	\$-	\$205,963	\$ -
Equity position in Arem Pacific Corporation	3,920,000	-	3,920,000	-
Equity position in Wonder International Education & Investment Group Corporation	61,713	-	61,713	-
	\$4,187,676	\$-	\$4,187,676	\$ -

As of December 31, 2014 Fair Vaue Measurements at Reporting Date Using:			
	Quoted Prices in	Significant Other	Significant

		Active Markets for Identical Assets (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
	Total			
Assets:				
Equity position in Alpha Lujo, Inc.	\$ 294,234	\$ -	\$ 294,234	\$ -
Equity position in Arem Pacific Corporation	6,400,000	-	6,400,000	-
Equity position in Wonder International Education & Investment Group Corporation	191,799	-	191,799	-
	\$6,886,033	\$ -	\$6,886,033	\$ -

No shares were acquired in the three months ended March 31, 2015. During the three months ended March 31, 2014, the Company received 3,000,000 shares of Arem Pacific Corporation and 800,000 shares of Alpha Lujo, Inc. as compensation for services performed by the Company's Consulting segment.

As of March 31, 2015 and December 31, 2014, the Company holds 8,000,000 and 8,000,000 respectively, shares in Arem Pacific Corporation, 2,942,350 and 2,942,350 respectively, shares in Alpha Lujo, Inc. and 2,057,131 and 2,131,105 shares in Wonder International Education and Investment Group Corporation, respectively. All available-for-sale investments held by the Company at March 31, 2015 and December 31, 2014 have been valued based on level 2 inputs due to the limited trading of all three of these companies. Available-for-sale securities classified within level 2 of the fair value hierarchy are valued utilizing pricing reports from an independent third party pricing service.

#### NOTE 10 – INTANGIBLE ASSETS

Intangible assets that are subject to amortization are reviewed for potential impairment whenever events or circumstances indicate that carrying amounts may not be recoverable. Assets not subject to amortization are tested for impairment at least annually. The Company evaluates the continuing value of the intangibles at each balance sheet date and records write-downs if the continuing value has become impaired. An impairment is determined to exist if the anticipated undiscounted future cash flow attributable to the asset is less than its carrying value. The asset is then reduced to the net present value of the anticipated future cash flow.

As of March 31, 2015 and December 31, 2014, intangible assets, net consisted of the following:

##### Patents & knowhow

	March 31, 2015	December 31, 2014
Cost basis	\$11,404,656	\$11,404,730
Less: accumulated amortization	(574,856 )	(289,758 )
	\$10,829,800	\$11,114,972

##### Software

	March 31, 2015	December 31, 2014
Cost basis	\$65,599	\$65,848
Less: accumulated amortization	(27,332 )	(24,144 )
	\$38,267	\$41,704

Total intangibles, net	\$10,868,067	\$11,156,676
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All software is provided by a third party vendor, is not internally developed, and has an estimated useful life of five years. Patents and knowhow are amortized using an estimated useful life of three to ten years. Amortization expense for the three months ended March 31, 2015 and 2014 was \$284,433 and \$86,672, respectively.

Estimated amortization expense for each of the ensuing years are as follows for the years ending March 31:

Years ending March 31,	Amount
2016	\$ 1,153,585
2017	1,153,585
2018	1,149,691
2019	1,142,263
2020 and thereafter	6,268,943
	\$ 10,868,067



## NOTE 11 – LEASES

The Company leases facilities under non-cancellable operating lease agreements. These facilities are located in the United States, Hong Kong and China. The Company recognizes rental expense on a straight-line basis over the life of the lease period. Rent expense under operating leases for the three months ended March 31, 2015 and 2014 was approximately \$231,109 and \$133,895, respectively.

As of March 31, 2015, the Company has the following future minimum lease payments due under the foregoing lease agreements:

Years ending March 31,	Amount
2016	\$ 717,889
2017	342,718
	\$ 1,060,607

## NOTE 12 – RELATED PARTY TRANSACTIONS

Prior to August 26, 2014, Global Health Investment Holdings Ltd. (“Global Health”) was the Company’s largest shareholder. On August 26, 2014 Global Health disseminated its CBMG shareholdings, on a pro rata basis, to its shareholders. Global Health and its subsidiaries are no longer the Company’s affiliate since then. The net balance due to related parties is \$36,254 as of December 31, 2014, representing \$6,037 for combined advances from the Company’s executives and \$30,217 to a subsidiary of Global Health.

The Company received income of \$61,051 from the Subsidiaries of Global Health for cell kits with cell processing and storage for the three months ended March 31, 2014.

## NOTE 13 – EQUITY

ASC Topic 505 Equity paragraph 505-50-30-6 establishes that share-based payment transactions with nonemployees shall be measured at the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable.

In March 2014, the Company entered into several Subscription Agreements with selected investors (the “Purchasers”) that met the criteria as “Accredited Investors” as defined in Rule 501(a) of Regulation D under the Securities Act of 1933 (the “Act”), and other investors who met the criteria as “non-U.S. persons” who agreed to comply with the applicable requirements of Regulation S under the Act. As a result of these transactions, the Company issued to the purchasers an aggregate of 194,029 shares of common stock, at a price per share of \$6.70 for an aggregate purchase price of approximately \$1,220,000.

In June 2014, the Company entered into several Subscription Agreements with selected investors that met the criteria as “non-U.S. persons” who agreed to comply with the applicable requirements of Regulation S under the Act. As a result of these transactions, the Company issued to the purchasers an aggregate of 1,492,537 shares of common stock, at a price per share of \$6.70 for an aggregate purchase price of approximately \$10,000,000. Certain warrants were issued to the placement agent in this offering. These warrants were all exercised in the year ended December 31, 2014 and 17,765 shares of common stock were issued.

The Company issued to the lead investor in the June 2014 financing, a three-year option to purchase up to 1,000,000 shares of common stock at \$8.00 per share. Pursuant to the terms of the option, if at any time after 18 months following the date of issuance, the daily volume-weighted average price of the Company's common stock exceeds \$12.00 for a consecutive 20 trading days, the Company shall have the right to require the holder to exercise the option in full. In December 2014, the Company received approximately \$8,000,000 upon the exercise in full of this option.

In September 2014, the Company entered into several agreements with selected parties for the purchase of AG and patents. As a result of these transactions, the Company issued an aggregate of 828,522 shares of common stock, at a price per share of \$19.238 for an aggregate price of approximately \$15,939,000.

In December 2014, the Company issued 39,260 shares as a finder fee to the AG acquisition. In connection with this issuance the Company recorded expense of approximately \$480,000. The share price on the date of this signed agreement was \$12.22 and was used to calculate number of shares to issue.

In March 2015, the Company closed a financing transaction pursuant to which it sold 515,786 shares of the Company's common stock, to selected investors at \$38 per share, for total gross proceeds of approximately \$19,600,000. The shares were sold pursuant to separate subscription agreements between the Company and each investor. The Company incurred a finder fee of \$979,992, equal to 5% of the gross proceeds from the investors that were introduced by such finders, which had been recorded as a reduce in equity.

During the three months ended March 31, 2015, the Company expensed \$1,700,908 associate with unvested options awards and \$18,550 associated with restricted common stock, respectively.

During the three months ended March 31, 2015, options for 7,900 underlying shares were exercised on a cash basis, 7,900 shares of the Company's common stock were issued accordingly.

#### NOTE 14 – COMMITMENTS AND CONTINGENCIES

##### Executive Employment Agreements

At the close of the merger with CBMG BVI, the Company entered into executive employment agreements with each of Wen Tao (Steve) Liu, Wei (William) Cao and Andrew Chan (the "New Officers") dated February 6, 2013 (each an "Employment Agreement," collectively, the "Employment Agreements"). Pursuant to Amendment 1 to the Employment Agreement, Andrew Chan will receive an annual base salary of \$200,000. Pursuant to Board of Directors ("BOD") Minutes dated September 29, 2013, Steve Liu and William Cao receive an annual base salary of \$200,000 and \$225,000, respectively. The New Officers are also eligible to participate in the Company's Amended and Restated 2011 Incentive Stock Option Plan (the "2011 Plan") and receive an option grant thereunder for the purchase of common stock of the Company at the discretion of the board of directors of the Company (the "Board"). The term of the New Officers' employment agreements are effective as of February 6, 2013 and continue for three years thereafter. After the three year term, if the New Officers continue to be employed, they will be employed on an at-will basis and their agreements shall automatically renew for successive one year terms, until and unless their employment is terminated.

Each of the above Executive Employment Agreements contain termination provisions that dependent on the reason an executive is terminated, severance payments and the payment of COBRA premiums may be triggered.

On January 3, 2014 the Company entered into an executive employment agreement with Bizuo (Tony) Liu (the "Liu Employment Agreement"). Pursuant to the Liu Employment Agreement, Tony Liu will receive an annual base salary of \$210,000 with substantially similar terms and conditions as the New Officers.

On May 1, 2014 the Company revised Wen Tao (Steve) Liu's agreement (the "Wen Tao Employment Agreement"). Pursuant to the Wen Tao Agreement, Steve Liu will receive an annual base salary of \$150,000 as part-time Executive Chairman.

## Capital commitments

As of March 31, 2015, the capital commitments of the Company are summarized as follows:

	March 31, 2015
Contracts for acquisition of equipment being or to be executed	\$ 20,968
Contracts for acquisition of intangible assets being or to be executed	1,887,272
	\$ 1,908,240

## NOTE 15 – STOCK BASED COMPENSATION

Our stock-based compensation arrangements include grants of stock options and restricted stock awards under the Stock Option Plan (the “2009 Plan”, “2011 Plan”, “2013 Plan” and the “2014 Plan”), and certain awards granted outside of these plans. The compensation cost that has been charged against income related to stock-based compensation (including shares issued for services and expense true-ups and reversals described in Note 13) for the three months ended March 31, 2015 and 2014 was \$1,719,458 and \$279,445 respectively, and is included in general and administrative expense in our Consolidated Statements of Operations. As of March 31, 2015, there was \$13,636,990 of unrecognized compensation cost related to an aggregate of 1,244,360 of non-vested stock option awards and \$42,297 related to an aggregate of 7,116 of non-vested restricted stock awards. These costs are expected to be recognized over a weighted-average period of 2.3 years for the stock options awards and 0.6 years for the restricted stock awards.

During the three months ended March 31, 2015, the Company issued options under the 2013 Plan and 2014 Plan of an aggregate of 475,279 shares of the Company’s common stock to officers, directors and employees. The grant date fair value of these options was \$8,386,720 using Black-Scholes option valuation models with the following assumptions: exercise price equal to the grant date stock price of \$5.00 to \$20.63, volatility 96.00% to 99.25%, expected life 6.0 years, and risk-free rate of 1.39% to 1.81%. The Company is expensing these options on a straight-line basis over the requisite service period.

The following table summarizes stock option activity as of March 31, 2015 and December 31, 2014 and for the three months ended March 31, 2015:

	Number of Options	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at December 31, 2014	1,425,173	\$7.37	8.9	\$11,065,770
Grants	475,279	15.94		
Forfeitures	(6,500 )	12.86		
Exercises	(7,900 )	5.45		
Outstanding at March 31, 2015	1,886,052	\$9.43	8.3	\$41,549,725
Vested and exercisable at March 31, 2015	641,692	\$4.75	8.3	\$17,139,593

Exercise Price	Number of Options	
	Outstanding	Exercisable
\$3.00 - \$4.95	350,883	274,495
\$5.00 - \$9.19	805,090	332,756
\$12.91 +	730,079	34,441
	1,886,052	641,692

The aggregate intrinsic value for stock options outstanding is defined as the positive difference between the fair market value of our common stock and the exercise price of the stock options.

Cash received from option exercises under all share-based payment arrangements for the three months ended March 31, 2015 was \$26,590. No options were exercised in the same period 2014.

#### NOTE 16 – NET INCOME (LOSS) PER SHARE

Basic and diluted net loss per common share is computed on the basis of our weighted average number of common shares outstanding, as determined by using the calculations outlined below:

	For the Three Months Ended March 31,	
	2015	2014
Loss from continuing operations	\$ (4,287,171 )	\$ (1,861,206)
Profit on discontinued operations	\$ -	\$ 1,414,675
Net loss	\$ (4,287,171 )	\$ (446,531 )
Weighted average shares of common stock	11,039,208	7,494,815
Dilutive effect of stock options	-	-
Restricted stock vested not issued	-	-
Common stock and common stock equivalents	11,039,208	7,494,815
Loss from continuing operations per basic share	\$ (0.39 )	\$ (0.25 )
Loss from continuing operations per diluted share	\$ (0.39 )	\$ (0.25 )
Earning on discontinued operations per basic share	\$ -	\$ 0.19
Earning on discontinued operations per diluted share	\$ -	\$ 0.19
	\$ (0.39 )	\$ (0.06 )
	\$ (0.39 )	\$ (0.06 )

Anti-dilutive share equivalents included 1,886,052 and 1,105,703 outstanding stock options as of March 31, 2015 and 2014, respectively.

#### NOTE 17 – INCOME TAXES

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period during which such rates are enacted.

The Company considers all available evidence to determine whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the

generation of future taxable income during the periods in which those temporary differences become realizable. Management considers the scheduled reversal of deferred tax liabilities (including the impact of available carryback and carry-forward periods), and projected taxable income in assessing the realizability of deferred tax assets. In making such judgments, significant weight is given to evidence that can be objectively verified. Based on all available evidence, in particular our three-year historical cumulative losses, recent operating losses and U.S. pre-tax loss for the three months ended March 31, 2015, we recorded a valuation allowance against our U.S. net deferred tax assets. In order to fully realize the U.S. deferred tax assets, we will need to generate sufficient taxable income in future periods before the expiration of the deferred tax assets governed by the tax code.

The following represent components of the current tax expense for the three months ended March 31, 2015 and 2014:

	For the Three Months Ended March 31,	
	2015	2014
Current:		
US federal	\$-	\$-
US state	800	-
Foreign	-	-
Total current tax expense	\$800	\$-
Deferred:		
Federal	\$-	\$-
State	-	-
Foreign	-	-
Total deferred tax expense	\$-	\$-
Total income tax expense	\$800	\$-

Tax effects of temporary differences that give rise to significant portions of the Company's deferred tax assets at March 31, 2015 and December 31, 2014 are presented below:

	March 31, 2015	December 31, 2014
Deferred tax assets:		
Net operating loss carry forwards (offshore)	\$1,643,090	\$4,343,930
Net operating loss carry forwards (US)	1,986,113	1,823,432
Accrued compensation (US)	1,147,136	581,129
Stock options (US)	1,214,891	1,217,927
Investments (US)	585,500	599,332
Subtotal	6,576,730	8,565,750
Less: valuation allowance	(6,576,730)	(8,565,750)
Net deferred tax asset	\$-	\$-
Deferred tax liabilities:	\$-	\$-

In each period since inception, the Company has recorded a valuation allowance for the full amount of net deferred tax assets, as the realization of deferred tax assets is uncertain. As a result, the Company has not recorded any federal or state income tax benefit in the consolidated statements of operations and comprehensive income (loss).

As of March 31, 2015, the Company had net operating loss carryforwards of \$5 million for U.S federal purposes, \$5 million for U.S. state purposes, and \$3.7 million for Chinese income tax purposes such losses are set to expire in 2035, 2035, and 2020 for U.S. federal, U.S. state and Chinese income tax purposes, respectively. All deferred income tax expense is offset by changes in the valuation allowance pertaining to the Company's existing net operating loss carryforwards due to the unpredictability of future profit streams prior to the expiration of the tax losses. The Company's effective tax rate differs from statutory rates of 35% for U.S. federal income tax purposes and 25% for Chinese income tax purposes and 16.5% for Hong Kong income tax purposes due to the effects of the valuation allowance and certain permanent differences as it pertains to book-tax differences in the value of client shares



received for services.

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Income tax expense for the three months ended March 31, 2015 differed from the amounts computed by applying the statutory federal income tax rate of 35% to pretax income (loss) as a result of the following:

	March 31, 2015		
Effective Tax Rate Reconciliation			
Income tax provision at statutory rate	\$(1,500,230)	35.0	%
State income taxes, net of federal benefit	520	0.0	%
Goodwill impairment	-	0.0	%
Foreign rate differential	542,947	(12.7	)%
Other Permanent difference	4,286	(0.1	)%
Change in Valuation Allowance	953,277	(22.2	)%
Total tax expense	\$800	0.0	%

#### NOTE 18 – COLLABORATION AGREEMENT

Part of AG's business includes a collaboration agreement to establish and operate a biologic treatment center in the Jilin province of China. Under the terms of the agreement dated on December 10, 2012, AG's collaborative partner funded the development of the center and provides certain ongoing services. In exchange, the partner receives preferred repayment of all funds that were invested in the development, 60% of the net profits until all of the invested funds are repaid, and 40% of the net profits thereafter, and the rights to the physical assets at the conclusion of the agreement. We are accounting for this transaction in accordance with ASC 808 Collaborative Arrangements and have reflected all assets and liabilities of the treatment center. While a liability exists for the amounts to be repaid to the partner for the initial funding, no liability has been recognized for the partner's rights to the assets upon the conclusion of the agreement as there is no specified termination date to the agreement. As of March 31, 2015, the net carrying amount of the physical assets located at biologic treatment center subject to transfer to the partner at the conclusion of the collaboration agreement was \$355,066. For the three months ended March 31, 2015, AG incurred \$150,882 attributed to 60% of net profits to the partner arising from aforementioned collaborative arrangements, which was recorded in the cost of sales.

#### NOTE 19 – SEGMENT INFORMATION

As stated in Note 3, as of June 23, 2014, the Company decided to discontinue the Consulting segment. As such, since the discontinuation, the Company only has one business unit. Therefore, the Company will not be presenting segment information until such time as another segment is developed.

#### NOTE 20 – SUBSEQUENT EVENTS

On March 27, 2015, the Company completed the second and final closing of a financial transaction pursuant to which the Company raised approximately \$19.6 million in gross proceeds, in the sale of 515,786 shares of the Company's common stock, par value \$0.001 per share (the "Common Stock") to select investors at \$38.00 per share. The Company needs to pay a fee of \$979,992 in cash equal to 5% of the gross proceeds from non-U.S. investors that were introduced by such finders. The Company started to pay the finder fee from April 2015. Up to the issuance of the financial statements, \$0.4 million has been paid to those finders.

The Company intends to establish its GMP facility in Beijing in 2015 with 16,000 square feet of space. The Company signed related tenancy agreements in April 2015. The lease term is five years, commencing from April 15, 2015 to April 14, 2020. The annual rental expense is approximate \$0.3 million. The Company also entered into an agreement for Beijing GMP facility construction on May 11, 2015 and the total contract amount is \$0.7million.

On April 21, 2015, a putative class action complaint was filed against the Company in the U.S. District Court for the Northern District of California captioned *Bonnano v. Cellular Biomedicine Group, Inc.*, 3:15-cv-01795-WHO (N.D. Ca.). The complaint also names Wei Cao, the Company's Chief Executive Officer, and Tony Liu, the Company's Chief Financial Officer, as defendants. The complaint alleges that during the class period, June 18, 2014, through April 7, 2015, the Company made material misrepresentations in its periodic reports filed with the SEC. The complaint alleges a cause of action under Section 10(b) of the Securities Exchange Act of 1934 (the "1934 Act") against all defendants and under Section 20(a) of the 1934 Act against the individual defendants. The complaint does not state the amount of the damages sought. As of May 15, 2015, defendants have not been served. The Company believes that the claims do not have merit and intends to vigorously defend against them. At this early stage of the proceedings it is not possible to evaluate the likelihood of an unfavorable outcome or to estimate the range of potential loss.

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

The following discussion and analysis summarizes the significant factors affecting our results of operations, financial condition and liquidity position for the three months ended March 31, 2015 and 2014, and should be read in conjunction with our condensed consolidated financial statements and related notes included elsewhere in this filing.

This report contains forward-looking statements. These statements relate to future events or to our future financial performance and involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements.

Factors that might affect our forward-looking statements include, among other things:

- overall economic and business conditions;
- the demand for our products and services;
- competitive factors in the industries in which we compete;
- the results of our pending and future litigation;
- the emergence of new technologies which compete with our product and service offerings;
- our cash position and cash burn rate;
- other capital market conditions, including availability of funding sources;
- the strength of our intellectual property portfolio; and
- changes in government regulations in China and the U.S. related to our industries.

In some cases, you can identify forward-looking statements by terms such as “may,” “will,” “should,” “could,” “would,” “expect,” “plans,” “anticipates,” “believes,” “estimates,” “projects,” “predicts,” “potential” and similar expressions. These statements are not guarantees of future performance and are based on our current views with respect to future events and are based on assumptions and are subject to risks and uncertainties. Given these uncertainties, you should not place undue reliance on these forward-looking statements. We discuss many of these risks in greater detail under the heading “Risk Factors” included in other reports we file with the Securities and Exchange Commission. Also, these forward-looking statements represent our estimates and assumptions only as of the date of the document containing the applicable statement.

Unless required by law, we undertake no obligation to update or revise any forward-looking statements to reflect new information or future events or developments. Thus, you should not assume that our silence over time means that actual events are bearing out as expressed or implied in such forward-looking statements.

### OVERVIEW

For purposes of this periodic report, “CBMG BVI” refers to Cellular Biomedicine Group Ltd., a British Virgin Islands corporation, which is now a wholly-owned subsidiary of the registrant, together with its business, operations, subsidiaries and controlled entities). The “Company”, “CBMG”, “we”, “us”, “our” and similar terms refer to Cellu

Biomedicine Group, Inc. (a Delaware corporation) as a combined entity including each of its subsidiaries and controlled companies following the merger (formerly EastBridge Investment Group Corporation), unless the context otherwise requires. “EastBridge Sub” refers to the Company's wholly owned subsidiary EastBridge Investment Corp.

## Recent Developments

On January 9, 2015, the Company entered into an agreement to acquire third generation CAR-T, anti-PD-1, CD19 and aAPC cancer immunotherapy technologies from Persongen Biotechnology Ltd (“PG”).

On February 4, 2015, the Company announced its agreement related to the acquisition of Chinese PLA General Hospital's ("PLAGH", Beijing, also known as "301 Hospital") Chimeric Antigen Receptor T cell (“CAR-T”) therapy, its recombinant expression vector CD19, CD20, CD30 and Human Epidermal Growth Factor Receptor's (EGFR or HER1) Immuno-Oncology patents applications, and Phase I clinical data of the aforementioned therapies and manufacturing knowledge. The 301 Hospital team has conducted several preliminary clinical studies of various CAR-T constructs targeting CD19-positive acute lymphoblastic leukemia, CD20-positive lymphoma, CD30-positive Hodgkin's lymphoma and EGFR-HER1-positive advanced lung cancer. Pursuant to the terms of the Transfer Agreement, PLAGH agreed to transfer to the Company all of its right, title and interest in and to certain technologies currently owned by PLAGH (including, without limitation, four technologies and their pending patent applications) that relate to genetic engineering of chimeric antigen receptor (CAR)-modified T cells and its applications (collectively, the “Technology”). In addition, PLAGH is responsible for obtaining governmental approval for the clinical trial related to the Technology, and the Company is responsible for the costs and expenses in connection therewith.

On March 25, 2015, the Company announced results of the Phase I clinical studies on CAR-CD19 (CBM-C19.1) and CAR-CD20 (CBM-C20.1). In comparison with leading clinical research reports on CAR-CD19 therapies by peers, we believe that the efficacy profile of both CBM-C19.1 and CBM-C20.1 therapies are distinguished for the following reasons:

- I. The patient selection criteria of this study are the most stringent. The participants enrolled in the studies were advanced, relapsed, and refractory to other standard-of-care therapies. This selection criterion is highly distinguishable from other entities, which avoided higher risk patients. Most of these high severity patients would not have been eligible for other entities’ studies because of extramedullary involvement or bulky tumor deemed too risky for their trials.
- II. The treatment program design of this study is very stringent.
  - a. Our higher risk patients did not receive conditioning chemotherapy, which is known as a beneficial facilitator of adoptive T cell therapies.
  - b. Moreover, our higher risk patients did not receive subsequent Hematopoietic Stem Cell transplantation (HSCT), which is also known as a beneficial facilitator of adoptive T cell therapies.

In 2013, we completed a Phase I/IIa clinical trial, in China, for our Knee Osteoarthritis (“KOA”) therapy named ReJoin™. The trial tested the safety and efficacy of intra-articular injections of autologous haMPCs in order to reduce inflammation and repair damaged joint cartilage. The 6-month follow-up clinical data showed ReJoin™ therapy to be both safe and effective.

In 2nd quarter 2014 we completed patient enrollment for the Phase IIb clinical trial of ReJoin™ for KOA. The multi-center study has enrolled 53 patients to participate in a randomized, single blind trial. We published 48 weeks follow-up data of Phase I/IIa on December 5, 2014. The 48 weeks data indicated that patients have reported a decrease in pain and a significant improvement in mobility and flexibility, while the clinical data shows our ReJoin™ regenerative medicine treatment to be safe. We announced interim 24 week results on March 25, 2015, confirmed that the primary and secondary endpoints of ReJoin™ therapy groups have all improved significantly compared to their baseline. We plan to release 12 month follow-up data in late 2015.

In January 2015 we initiated patient recruitment to support a study, in China, of ReJoin™ human adipose derived mesenchymal progenitor cell (“haMPC”) therapy for Cartilage Damage (“CD”) resulting from osteoarthritis (“OA”) or sports injury. The study is based on the same science that has shown significant progress in the treatment of KOA. Both arthroscopy and the use of magnetic resonance imaging (“MRI”) will be deployed to further demonstrate the regenerative efficacy of ReJoin™ on CD.

We have also launched pre-clinical study on human adipose derived mesenchymal progenitor cell (“haMPC”) therapy for Asthma, and Chronic Obstructive Pulmonary Disease.

With regard to our intellectual property portfolio, in the third quarter of 2014, in addition to, patents relating to the use of haMPC for the prevention, and treatment of Osteoarthritis and a patent for using allogeneic haMPCs or mesenchymal progenitor cells for the prevention and treatment of Rheumatoid Arthritis, we secured other cancer related intellectual property through the AG acquisition.

With the recent addition of our cancer immune cell therapy resources, we plan to evaluate and prioritize our cancer clinical trial indications for commercialization using safe and most effective therapy or combination therapies. The Company believes that, when integrated with CBMG's state-of-the-art infrastructure and clinical platform, the aforementioned acquired AG, PG and 301 Hospital technologies will improve our cancer immune cell therapies clinical pathway and pave the way for collaboration with renowned institutions. We plan to initiate certain cancer clinical trials upon receiving acceptance of the clinical trial designs with the principal investigator and obtaining the requisite approvals.

In the next 12 months, we aim to accomplish the following in our biomedicine business:

Complete the preclinical safety studies on Asthma and Chronic Obstructive Pulmonary Disease;

Publish the Phase I clinical trial results on CAR-T CD30 and HER1;

Publish the KOA Phase IIb twelve-month MRI data that demonstrates clear signs of efficacy;

Obtain approval for pending Patent Cooperation Treaty ("PCT") patents;

Develop a strategy to launch cancer immune cell therapy clinical trials; and

Develop IP on allogeneic HaMPC therapy for Asthma.

For the three months ended March 31, 2015 and 2014 we generated \$603,390 and \$61,051 in revenue, respectively. The revenue in first quarter 2015 is all from the immune cell therapy and revenue in the same period of 2014 is from sales of A-Stromal™ enzyme reagent kits. We expect our biomedicine business to generate revenues primarily from immune therapy and the development of therapies for the treatment of KOA in the next three to four years.

Our operating expenses for the three months ended March 31, 2015 were in line with management's plans and expectations. We incurred an increase in total operating expenses of approximately \$2,960,000 for the three months ended March 31, 2015, as compared to the three months ended March 31, 2014, which is primarily attributable to an increase in cost of sales in line with the revenue, option awards costs and increased input into R&D projects.

#### Corporate History

Please refer to Note 1 of unaudited condensed consolidated financial statements for the corporate history.

#### BIOMEDICINE BUSINESS

Our biomedicine business was founded in 2009 as a newly formed specialty biomedicine company by a team of seasoned Chinese-American executives, scientists and doctors. In 2010 we established a GMP facility in Wuxi, and in 2012 we established a U.S. Food and Drug Administration ("FDA") GMP standard protocol-compliant manufacturing facility in Shanghai. Our focus has been to monetize the rapidly growing health care market in China by marketing and commercializing stem cell and immune cell therapeutics, related tools and products from our patent-protected homegrown and acquired cell technology, as well as by utilizing exclusively in-licensed and other acquired intellectual properties.

Our current treatment focal points are cancer and other degenerative diseases such as KOA, Asthma, COPD and Cartilage Defects.

**Cancer.** In the cancer field, our in-licensed Tumor Cell Target Dendritic Cell ("TC-DC") therapy utilizes dendritic cells that have been taught the unique "signature" of the patient's cancer, in order to trigger an effective immune response against cancer stem cells, the root cause of cancer metastasis and recurrence. Our TC-DC product candidate has successfully completed a U.S. FDA Phase II clinical trial for the treatment of Metastatic Melanoma at the Hoag Medical Center in California. We have a process to develop human embryo-derived motor neuronal precursor cells and human embryo-derived neuronal precursor cells with high purity levels, validated by synapse formation, and have shown functional innervation with human muscle cells. Under applicable international reciprocity procedures we are



utilizing data generated in a U.S. Phase II clinical trial in an analogous China-based Phase I/II Clinical Trial for the treatment of Hepatocellular Carcinoma (“HCC”), a major type of Liver Cancer. Management believes we will be able to leverage skin cancer data produced in ongoing trials in the U.S., and apply it toward advancing our product candidate for the treatment of liver cancer and other cancer-related indications. As of December 31, 2013, we have completed the HCC Phase I trial. With the advent of more advanced technologies in our portfolio, at present we have not advanced the HCC trial using Dendritic Cells. And with the recent build-up of our Tcm, TCR clonality, CAR-T and anti-PD-1 technologies we plan to evaluate and prioritize our cancer clinical trial indications for commercialization using safe and most effective therapy or combination therapies. We announced results from our Phase I trial for certain of CAR-T cancer immunotherapy programs on March 25, 2015. The Phase I trial data showed a positive response rate under controllable toxicities.

KOA. In 2013, we completed a Phase I/IIa clinical trial, in China, for our Knee Osteoarthritis (“KOA”) therapy named ReJoin™. The trial tested the safety and efficacy of intra-articular injections of autologous haMPCs in order to reduce inflammation and repair damaged joint cartilage. The 6-month follow-up clinical data showed ReJoin™ therapy to be both safe and effective.

In Q2 of 2014 we completed patient enrollment for the Phase IIb clinical trial of ReJoin™ for KOA. The multi-center study has enrolled 53 patients to participate in a randomized, single blind trial. We published 48 weeks follow-up data of Phase I/IIa on December 5, 2014. The 48 weeks data indicated that patients have reported a decrease in pain and a significant improvement in mobility and flexibility, while the clinical data shows our ReJoin™ regenerative medicine treatment to be safe. We announced interim 24 week results for ReJoin™ on March 25, 2015, which confirmed that the primary and secondary endpoints of ReJoin™ therapy groups have all improved significantly compared to their baseline. We plan to release 12 month follow-up data in late 2015. Our ReJoin™ human adipose-derived mesenchymal progenitor cell (haMPC) therapy for KOA is an interventional therapy using proprietary device, process, culture and medium:

Obtain adipose (fat) tissue from the patient using our CFDA approved medical device, the A-Stromal™ Kit; and

Expand haMPCs using our proprietary culture medium (serum-free and antibiotics-free); and

formulated for ReJoin™ therapy using our proprietary formulation.

Our process is distinguishable from sole Stromal Vascular Fraction (SVF) therapy. The immunophenotype of our haMPCs exhibited multiple biomarkers such as CD29+, CD73+, CD90+, CD49d+, HLA-I+, HLA-DR-, Actin-, CD14-, CD34-, and CD45-. In contrast, SVF is merely a heterogeneous fraction including preadipocytes, endothelial cells, smooth muscle cells, pericytes, macrophages, fibroblasts, and adipose-derived stem cells (ASCs).

Cartilage Damage. In January 2015 we initiated patient recruitment to support a study, in China, of ReJoin™ human adipose derived mesenchymal progenitor cell (“haMPC”) therapy for Cartilage Damage (“CD”) resulting from osteoarthritis (“OA”) or sports injury. The study is based on the same science that has shown significant progress in the treatment of KOA. Both arthroscopy and the use of magnetic resonance imaging (“MRI”) will be deployed to further demonstrate the regenerative efficacy of ReJoin™ on CD.

Asthma. In Q1 of 2014 we began a pre-clinical study on haMPC therapy for asthma. The pre-clinical study, conducted by Shanghai First People’s Hospital, a leading teaching hospital affiliated with Shanghai Jiaotong University, will evaluate the safety and efficacy of haMPCs to treat severe asthma.

COPD. Chronic Obstructive Pulmonary Disease (“COPD”) refers to a group of diseases that block airflow to the lungs and make it difficult to breathe. The two most common conditions that make up COPD are chronic bronchitis and emphysema, which gradually destroys the smallest air passages (bronchioles) in the lungs. Currently the common treatments for COPD, such as use of steroids, inhalers and bronchodilator drugs, aim to control the symptoms and minimize further damage, but do not reverse the tissue damage. The major causes of COPD in China are tobacco smoking, biomass fuel use and genetic susceptibility.

Our pre-clinical COPD study is being conducted by Shanghai First People's Hospital, a leading teaching hospital affiliated with Shanghai Jiaotong University. Professor Zhou Xin, director of the hospital's respiratory department and chairperson of Respiratory Diseases Division of Shanghai Medical Association, will lead the study as Principal Investigator.

The unique lines of adult adipose-derived stem cells and the immune cell therapies enable us to create multiple cell formulations in treating specific medical conditions and diseases, as well as applying single cell types in a specific treatment protocol. Management believes that our adult adipose-derived line will become commercially viable and market-ready in China within three to four years, and will continue to grow the budding immune cell technical service revenue. In addition, we plan to assess and initiate cancer clinical trials leading to commercialization using safe and most effective therapy or combination therapies. Our facilities are certified to meet the international standards NSF/ANSI 49, ISO-14644 (or equivalent), ANSI/NCSL Z-540-1 and 10CFR21, as well as Chinese CFDA standards CNAS L0221. In addition to standard protocols, we use proprietary processes and procedures for manufacturing our cell lines, comprised of:

Banking processes that ensure cell preservation and viability;

DNA identification for stem cell ownership; and

Bio-safety testing at independently certified laboratories.

## Regenerative Medicine and Cell Therapy

Regenerative medicine is the “process of replacing or regenerating human cells, tissues or organs to restore or establish normal function”. Cell therapy as applied to regenerative medicine holds the promise of regenerating damaged tissues and organs in the body by rejuvenating damaged tissue and by stimulating the body’s own repair mechanisms to heal previously irreparable tissues and organs. Medical cell therapies are classified into two types: allogeneic (cells from a third-party donor) or autologous (cells from one’s own body), with each offering its own distinct advantages. Allogeneic cells are beneficial when the patient’s own cells, whether due to disease or degeneration, are not as viable as those from a healthy donor. Similarly, in cases such as cancer, where the disease is so unique to the individual, autologous cells can offer true personalized medicine.

Regenerative medicine can be categorized into major subfields as follows:

**Cell Therapy.** Cell therapy involves the use of cells, whether derived from adults, children or embryos, third party donors or patients, from various parts of the body, for the treatment of diseases or injuries. Therapeutic applications may include cancer vaccines, cell based immune-therapy, arthritis, heart disease, diabetes, Parkinson’s and Alzheimer’s diseases, vision impairments, orthopedic diseases and brain or spinal cord injuries. This subfield also includes the development of growth factors and serums and natural reagents that promote and guide cell development.

**Tissue Engineering.** This subfield involves using a combination of cells with biomaterials (also called “scaffolds”) to generate partially or fully functional tissues and organs, or using a mixture of technology in a bioprinting process. Some natural materials, like collagen, can be used as biomaterial, but advances in materials science have resulted in a variety of synthetic polymers with attributes that would make them uniquely attractive for certain applications. Therapeutic applications may include heart patch, bone re-growth, wound repair, replacement neo-urinary conduits, saphenous arterial grafts, inter-vertebral disc and spinal cord repair.

**Diagnostics and Lab Services.** This subfield involves the production and derivation of cell lines that may be used for the development of drugs and treatments for diseases or genetic defects. This sector also includes companies developing devices that are designed and optimized for regenerative medicine techniques, such as specialized catheters for the delivery of cells, tools for the extraction of stem cells and cell-based diagnostic tools.

All living complex organisms start as a single cell that replicates, differentiates (matures) and perpetuates in an adult through its lifetime. Cell therapy is aimed at tapping into the power of cells to prevent and treat disease, regenerate damaged or aged tissue and provide cosmetic applications. The most common type of cell therapy has been the replacement of mature, functioning cells such as through blood and platelet transfusions. Since the 1970s, bone marrow and then blood and umbilical cord-derived stem cells have been used to restore bone marrow and blood and immune system cells damaged by chemotherapy and radiation used to treat many cancers. These types of cell therapies have been approved for use world-wide and are typically reimbursed by insurance.

Over the past number of years, cell therapies have been in clinical development to attempt to treat an array of human diseases. The use of autologous (self-derived) cells to create vaccines directed against tumor cells in the body has been demonstrated to be effective and safe in clinical trials. Researchers around the globe are evaluating the effectiveness of cell therapy as a form of replacement or regeneration of cells for the treatment of numerous organ diseases or injuries, including those of the brain and spinal cord. Cell therapies are also being evaluated for safety and effectiveness to treat heart disease, autoimmune diseases such as diabetes, inflammatory bowel disease, joint diseases and cancerous diseases. While no assurances can be given regarding future medical developments, we believe that the

field of cell therapy is a subset of biotechnology that holds promise to improve human health, help eliminate disease and minimize or ameliorate the pain and suffering from many common degenerative diseases relating to aging.

#### Recent Developments in Cancer Cell Therapy

According to the U.S. National Cancer Institute's 2013 cancer topics research update on CAR-T-Cells, excitement is growing for immunotherapy—therapies that harness the power of a patient's immune system to combat their disease, or what some in the research community are calling the "fifth pillar" of cancer treatment.

One approach to immunotherapy involves engineering patients' own immune cells to recognize and attack their tumors. And although this approach, called adoptive cell transfer ("ACT"), has been restricted to small clinical trials so far, treatments using these engineered immune cells have generated some remarkable responses in patients with advanced cancer. For example, in several early-stage trials testing ACT in patients with advanced acute lymphoblastic leukemia ("ALL") who had few if any remaining treatment options, many patients' cancers have disappeared entirely. Several of these patients have remained cancer free for extended periods.

Equally promising results have been reported in several small clinical trials involving patients with lymphoma. Although the lead investigators cautioned that much more research is needed, the results from the trials performed thus far indicate that researchers can successfully alter patients' T cells so that they attack their cancer cells. As an example, we look to Spectrum Pharmaceutical's Folutyn approved in September 2009 for treatment of R/R peripheral T-cell lymphoma with approval supported by a single arm trial observing an overall response rate of 27% and median duration of response of 9.4 months. In addition, CTI Therapeutics Pixuvri received a complete response letter in April 2010 in R/R aggressive NHL in which a 37% overall response rate and 5.5 month duration of response was observed.

ACT's building blocks are T cells, a type of immune cell collected from the patient's own blood. After collection, the T cells are genetically engineered to produce special receptors on their surface called chimeric antigen receptors ("CARs"). CARs are proteins that allow the T cells to recognize a specific protein (antigen) on tumor cells. These engineered CAR T cells are then grown in the laboratory until they number in the billions. The expanded population of CAR T cells is then infused into the patient. After the infusion, if all goes as planned, the T cells multiply in the patient's body and, with guidance from their engineered receptor, recognize and kill cancer cells that harbor the antigen on their surfaces. This process builds on a similar form of ACT pioneered from NCI's Surgery Branch for patients with advanced melanoma. According to [www.cancer.gov/.../research-updates/2013/CAR-T-Cells](http://www.cancer.gov/.../research-updates/2013/CAR-T-Cells), in 2013 NCI's Pediatric Oncology Branch commented that the CAR T cells are much more potent than anything they can achieve with other immune-based treatments being studied. Although investigators working in this field caution that there is still much to learn about CAR T-cell therapy, the early results from trials like these have generated considerable optimism. Researchers opined that CAR T-cell therapy eventually may become a standard therapy for some B-cell malignancies like ALL and chronic lymphocytic leukemia.

#### Market for Cell-Based Therapies

In 2013, U.S. sales of products which contain stem cells or progenitor cells or which are used to concentrate autologous blood, bone marrow or adipose tissues to yield concentrations of stem cells for therapeutic use were, conservatively, valued at \$236 million at the hospital level. It is estimated that the orthopedics industry used approximately 92% of the stem cell products.

The forecast is that in the United States, shipments of treatments with stem cells or instruments which concentrate stem cell preparations for injection into painful joints will fuel an overall increase in the use of stem cell based treatments resulting in a 61% increase to \$380 million in 2014, and an increase to \$5.7 billion in 2020, with key growth areas being Spinal Fusion, Sports Medicine and Osteoarthritis of the joints.

According to data published in the executive summary of the 2014 New York Stem Cell Summit Report, the U.S. specific addressable market in KOA is \$83 million, estimated to grow to \$1.84 billion by 2020. It is forecast that within the Orthopedic Stem Cell Market, in 2014 23% (\$77 million) will be in the field of cartilage repair, rising to 56% (\$1.7 billion) by 2020. According to International Journal of Rheumatic Diseases, 2011 there are over 57 million people with KOA in China. There are about 1,000 newborns with Spinal Muscular Atrophy Type I ("SMA-I") disease in China annually. The median life span of these children is less than 6 months. Adult incidence is approximately 2 million in China.

China accounts for about 45% of cases and 40% of liver cancer deaths globally, and about 340,000 new cases of HCC (90% of liver cancer cases are HCC) per year. Aggressive surgical resection (surgical removal) of tumors is one of the primary treatment options for patients with HCC. However, post-surgery 2-year recurrence rate of HCC is still over 51%. There are an estimated 30,000 new cases of metastatic melanoma each year in China.

There over 30 million people in China suffering from asthma without effective therapies. Respiratory diseases account for 15% of deaths in China. China has the largest asthmatic population in the world and is one of the countries with

the highest asthma mortality rate (Source: Respirology 2013, Asian Pacific Society of Respirology).

According to Respirology 2013, Asian Pacific Society of Respirology, COPD account for 15% of deaths in China and poses a high economic and social burden on families and communities in China, due to the expense of prescription drugs and the impact on quality of life, with many patients deteriorating to the point of being unable to work and a shortened life span. Based on estimates by World Health Organization (WHO) of 2.5% prevalence of COPD in China. Over 32 million people in China suffer from COPD, so the need for innovative solutions is pressing as this disease represents a significant unmet medical need.

The current data on CAR T-cell therapies, presented from various institutions including MSKCC, University of Pennsylvania, National Cancer Institute, and Fred Hutchinson Cancer Center, has been extremely positive. Recently, T cell checkpoint manipulation has brought hope to the struggling battle against cancer using immune cell therapy technologies. Merck has received fast approval for its PD-1 antibody therapy for Melanoma. Novartis CAR-T technology has made breakthroughs in treating B cell lymphoma using genetically modified T cell technology.

Approved cell therapies have been appearing on the market in recent years. In 2011, however, the industry was dealt two setbacks when Geron Corporation discontinued its embryonic program, and when Sanofi-Aventis acquired Genzyme Corporation and did not acquire the product rights relating to the allogeneic cell technology of Osiris Therapeutics, Inc., a partner of Genzyme and a leader in the field. In both cases there were difficulties navigating the U.S. regulatory requirements for product approval. Inadequate trial designs were cited in the executive summary of the 2012 New York Stem Cell Summit Report as contributing to these failures.

The number of cell therapy companies that are currently in Phase 2 and Phase 3 trials has been gathering momentum, and we anticipate that new cellular therapy products will appear on the market within the next several years.

Management believes the remaining risk in monetizing cancer immune cell therapies is concentrated in late stage clinical studies, speed-to-approval, manufacturing and process optimization.

### Our Strategy

The majority of our biomedicine business is in the development stage. We intend to concentrate our business on cell therapies and in the near-term, carrying our KOA stem cell therapy and cancer immune cell therapies to commercialization.

We are developing our business in cell therapeutics and capitalizing on the increasing importance and promise that adult stem cells have in regenerative medicine. Our most advanced candidate involves adipose-derived mesenchymal stem cells to treat KOA. Based on current estimates, aside from AG's budding Tcm technical service revenue, we expect our biomedicine business to generate revenues primarily from continuous expansion of Tcm technical services and the development of therapies for the treatment of KOA within the next three to four years.

Presently we have two autologous cell therapy candidates undergoing clinical trials in China, for the treatment of KOA and CD. If and when these therapies gain regulatory approval in the PRC, we will be able to market and offer them for clinical use. Although our biomedicine business was very recently organized, our technologies have been in development for decades, and our focus is on the latest translational stages of product development, principally from the pre-clinical trial stage to regulatory approval and commercialization of new therapies.

Our strategy is to develop safe and effective cellular medicine therapies for indications that represent a large unmet need in China, based on technologies developed both in-house and obtained through acquisition, licensing and collaboration arrangements with other companies. Our near term objective is to pursue successful clinical trials in China for our KOA application, followed by our CD and Asthma therapies. We intend to utilize our comprehensive cell platform to support multiple cell lines to pursue multiple therapies, both allogeneic and autologous. We intend to apply U.S. Standard Operating Procedures ("SOPs") and protocols while complying with Chinese regulations, while owning, developing and executing our own clinical trial protocols. We plan to establish domestic and international joint ventures or partnerships to set up cell laboratories and/or research facilities, acquire technology or in-license technology from outside of China, and build affiliations with hospitals, to develop a commercialization path for our therapies, once approved. We intend to use our first-mover advantage in China, against a backdrop of enhanced regulation by the central government, to differentiate ourselves from the competition and establish a leading position in the China cell therapeutic market. We also intend to out-license our technologies to interested parties.

CBMG initially plans to use its centralized manufacturing facility located in Shanghai to service multiple hospitals within 200 km of the facility. We aim to complete clinical trials for our KOA and CD therapy candidates as soon as practicable. Our goal is to first obtain regulatory permission for commercial use of the therapies for the respective hospitals in which the trials are being conducted. CBMG plans to scale up its customer base by qualifying multiple additional hospitals for the post-trial use of therapies, once approved, by following regulatory guidelines. Based on



current regulation and estimates we expect our biomedicine business to generate revenues primarily from continuous expansion of Tcm technical services and the development of therapies for the treatment of KOA within the next three to four years.

With the AG acquisition we intend to monetize AG's U.S. and Chinese intellectual property for immune cell therapy preparation methodologies and patient immunity assessment by engaging with prominent hospitals to conduct pre-clinical and clinical studies in specific cancer indications. The T Cell clonality analysis technology patent, together with AG's other know-how for immunity analysis, will enable the Company to establish an immunoassay platform that is crucial for immunity evaluation of patients with immune disorders as well as cancerous diseases that are undergoing therapy.

We believe that few competitors in China are as well-equipped as we are in the clinical trial development, diversified U.S. FDA protocol compliant manufacturing facilities, regulatory compliance and policy making participation, as well as a long-term presence in the U.S. with U.S.-based management and investor base.

We intend to continue our business development efforts by adding other proven domestic and international biotechnology partners to monetize the China health care market.

In order to expedite fulfillment of patient treatment CBMG has been actively developing technologies and products with a strong intellectual properties protection, including haMPC, derived from fat tissue, for the treatment of KOA, CD, Asthma, COPD and other indications. CBMG's acquisition of AG provides an enlarged opportunity to expand the application of its cancer therapy-enabling technologies and to initiate clinical trials with leading cancer hospitals. With the AG acquisition, we will continue to seek to empower hospitals' immune cell cancer therapy development programs that help patients improve their quality of life and improve their survival rate

CBMG's proprietary and patent-protected production processes and clinical protocols enable us to produce raw material, manufacture cells, and conduct cell banking and distribution. Applying our proprietary intellectual property, we will be able to customize specialize formulations to address complex diseases and debilitating conditions.

CBMG has been developing disease-specific clinical treatment protocols. These protocols are designed for each of these proprietary cell lines to address patient-specific medical conditions. These protocols include medical assessment to qualify each patient for treatment, evaluation of each patient before and after a specific therapy, cell transplantation methodologies including dosage, frequency and the use of adjunct therapies, potential adverse effects and their proper management.

The protocols of haMPC therapy for KOA and CD have been approved by the Institutional Review Board of qualified hospitals for clinical trials. Once the trials are completed, the clinical data will be analyzed by a qualified third party statistician and reports will be filed by the hospitals to regulatory agencies for approval for use in treating patients.

CBMG has two cGMP facilities in Shanghai and Wuxi, China that meet international standards and have been certified by the CFDA. In any precision setting, it is vital that all controlled-environment equipment meet certain design standards. To achieve this goal, our Shanghai cleanroom facility underwent an ISO-14644 cleanroom certification. Additionally, our facilities have been certified to meet the ISO-9001 Quality Management standard by SGS Group, and accredited by the American National Bureau of Accreditation ("ANBA"). These cGMP facilities make CBMG one of the few companies in China with facilities that have been certified by US- and European-based, FDA authorized ISO accreditation institutions.

In total, our cGMP facilities have over 13,000 sq. ft. of cleanroom space with the capacity for eight independent cell production lines and a manufacturing capability for over 5,000 patients for autologous cell therapies per year. In addition, CBMG has two cell banks located in Shanghai and Wuxi facilities with a storage capacity to host more than 200,000 individual cell sources. There is also a 400 sq. ft. CFDA-standard products quality control center and an 800 sq. ft. laboratory with state of the art equipment. Our cell banking services include collection, processing and storage of cells from patients. This enables healthy individuals to donate and store their stem cells for future personal therapeutic use.

The Company intends to establish its GMP facility in Beijing in 2015 with 16,000 square feet of space. The Company signed related tenancy agreements in April 2015. The lease term is five years, commencing from April 15, 2015 to April 14, 2020. The annual rental expense is approximate \$0.3 million. The Company also entered into an agreement for Beijing GMP facility construction on May 11, 2015 and the total contract amount is \$0.7million.

Most importantly, CBMG has a manufacturing and technology team with more than 30 years of relevant experience in China, EU, and the United States. All of these factors make CBMG a high quality cell products manufacturer in China.

#### Our Targeted Indications and Potential Therapies

##### Knee Osteoarthritis (KOA)

We have completed the Phase I/IIa clinical trial for the treatment of KOA. The trial tested the safety and efficacy of intra-articular injections of autologous haMPCs in order to reduce inflammation and repair damaged joint cartilage. The 6-month follow-up clinical data showed ReJoin TM therapy to be both safe and effective.

In Q2 2014 we completed patient enrollment for the Phase IIb clinical trial of ReJoinTM for KOA. The multi-center study has enrolled 53 patients to participate in a randomized, single blind trial. We published 48 weeks follow-up data of Phase I/IIa on December 5, 2014. The 48 weeks data indicated that patients have reported a decrease in pain and a significant improvement in mobility and flexibility, while the clinical data shows our ReJoinTM regenerative medicine treatment to be safe. We plan to release 12 month follow-up data in late 2015.

Osteoarthritis is a degenerative disease of the joints. KOA is one of the most common types of osteoarthritis. Pathological manifestation of osteoarthritis is primarily local inflammation caused by immune response and subsequent damage of joints. Restoration of immune response and joint tissues are the objective of therapies.

According to International Journal of Rheumatic Diseases, 2011, 53% of KOA patients will degenerate to the point of disability. Conventional treatment usually involves invasive surgery with painful recovery and physical therapy. As drug-based methods of management are ineffective, the same journal estimates that some 1.5 million patients with this disability will degenerate to the point of requiring artificial joint replacement surgery every year. However, only 40,000 patients will actually be able to undergo replacement surgery, leaving the majority of patients to suffer from a life-long disability due to lack of effective treatment.

haMPCs are currently being considered as a new and effective treatment for osteoarthritis, with a huge potential market. Osteoarthritis is one of the ten most disabling diseases in developed countries. Worldwide estimates are that 9.6% of men and 18.0% of women aged over 60 years have symptomatic osteoarthritis. It is estimated that the global OA therapeutics market was worth \$4.4 billion in 2010 and is forecast to grow at a compound annual growth rate (“CAGR”) of 3.8% to reach \$5.9 billion by 2018.

In order to bring haMPC-based KOA therapy to market, our market strategy is to: (a) establish regional laboratories that comply with cGMP standards in Shanghai and Beijing that meet Chinese regulatory approval; and (b) file joint applications with Class AAA hospitals to use haMPCs to treat KOA in a clinical trial setting.

Our competitors are pursuing treatments for osteoarthritis with knee cartilage implants. However, unlike their approach, our KOA therapy is not surgically invasive – it uses a small amount (30ml) of adipose tissue obtained via liposuction from the patient, which is cultured and re-injected into the patient. The injections are designed to induce the body’s secretion of growth factors promoting immune response and regulation, and regrowth of cartilage. The down-regulation of the patient’s immune response is aimed at reducing and controlling inflammation which is a central cause of KOA.

We believe our proprietary method, subsequent haMPC proliferation and processing know-how will enable haMPC therapy to be a low cost and relatively safe and effective treatment for KOA. Additionally, banked haMPCs can continue to be stored for additional use in the future.

#### Hepatocellular Carcinoma (HCC)

In January 2013, we commenced a Phase I clinical trial with PLA 85 hospital in Shanghai, for HCC therapy. Treatment for all the patients was completed in 2013 and the study revealed the TC-DC therapy to be safe. The purpose of this trial was to evaluate the safety of an autologous immune cell therapy in primary HCC patients following resection (surgical tumor removal) and Transarterial Chemo Embolization (“TACE”) Therapy, a type of localized chemotherapy technique. With the recent build-up of our Tcm, TCR clonality, CAR-T and anti-PD-1 technologies we plan to evaluate and prioritize our cancer clinical trial indications for commercialization using safe and most effective therapy or combination therapies.

One of the primary difficulties in administering effective cancer therapy is in the uniqueness of the disease – no two cancers are the same. Importantly, CBMG sources both immune and cancer cells directly from the patient, and our completely autologous approach to cancer therapy means that each dose is specific to each individual, an ultimate personalized therapeutic approach.

#### Human Adipose-Derived Mesenchymal Progenitor Cells (haMPC)

Adult mesenchymal stem cells can currently be isolated from a variety of adult human sources, such as liver, bone marrow, and adipose (fat) tissue. We believe the advantages in using adipose tissue (as opposed to bone marrow or blood) are that it is one of the richest sources of pluripotent cells in the body, the easy and repeatable access to fat via liposuction, and the simple cell isolation procedures that can begin to take place even on-site with minor equipment needs. The procedure we are testing for KOA involves extracting a very small amount of fat using a minimally invasive extraction process which takes up to 20 minutes, and leaves no scarring. The haMPC cells are then processed and isolated on site, and injected intra articularly into the knee joint with ultrasound guidance.

These haMPC cells are capable of differentiating into bone, cartilage, tendon, skeletal muscle, and fat under the right conditions. As such, haMPCs are an attractive focus for medical research and clinical development. Importantly, we believe both allogeneic and autologously sourced haMPCs may be used in the treatment of disease. Numerous studies have provided preclinical data that support the safety and efficacy of allogeneic and autologously derived haMPC, offering a choice for those where factors such as donor age and health are an issue.

Additionally, certain disease treatment plans call for an initial infusion of these cells in the form of SVF, an initial form of cell isolation that can be completed and injected within ninety minutes of receiving lipoaspirate. The therapeutic potential conferred by the cocktail of ingredients present in the SVF is also evident, as it is a rich source for preadipocytes, mesenchymal stem cells, endothelial progenitor cells, T regulatory cells and anti-inflammatory macrophages.

#### Immune Cell Therapy, Adoptive T cell

Adoptive T cell therapy for cancer is a form of transfusion therapy consisting of the infusion of various mature T cell subsets with the goal of eliminating a tumor and preventing its recurrence. In cases such as cancer, where the disease is unique to the individual, the adoptive T cell therapy is a personalized treatment.

We believe that an increasing portion of healthcare spending both in China and worldwide will be directed to immune cell therapies, driven by an aging population, and the potential for immune cell therapy treatments to become a safe, effective, and cost-effective method for treating millions of cancer patients.

Cancer is a major threat to public health and the solvency of health systems worldwide. Current treatments for these diseases cannot meet medical needs. We believe that immune cell therapy is a new technology that has the potential to alleviate much of the burden of these chronic and degenerative diseases in a cost-effective manner.

#### Tumor Cell Specific Dendritic Cells (TC-DC)

Recent scientific findings indicate the presence of special cells in tumors that are responsible for cancer metastases and relapse. Referred to as “cancer stem cells”, these cells make up only a small portion of the tumor mass. The central concept behind TC-DC therapy is to immunize against these cells. TC-DC therapy takes a sample of the patient’s own purified and irradiated cancer cells and combines them with specialized immune cells, thereby ‘educating’ the immune cells to destroy the cancer stem cells from which tumors arise. We believe the selective targeting of cells that drive tumor growth would allow for effective cancer treatment without the risks and side effects of current therapies that also destroy healthy cells in the body.

Our strategy is for CBMG, through acquisition of AG, and PG as well as PLAGH’s technologies and pre-clinical and clinical data, to become an immune cell business leader in the China cancer therapy market and specialty pharmaceutical market by utilizing CBMG’s attractiveness as a NASDAQ listed company to consolidate key China immune cell technology leaders with fortified intellectual property and ramp up revenue with first mover’s advantage in a safe and efficient manner. The Company plans to accelerate cancer trials by using the knowledge and experience gained from the Company’s ongoing KOA trials and the recent Tcm, CAR-T and PD-1 technologies. China has a bifurcated cell regulatory pathway, which is different than the singular path in the United States. Immune cell therapy is treated in China as a Class III medical technology and requires a smaller-scale trial and shorter trial period. By applying U.S. SOP and protocols and following authorized treatment plans in China, we believe we are differentiated from our competition as we believe we have first mover’s advantage and a fortified barrier to entry.

#### Critical Accounting Policies

We prepare our unaudited condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires the use of 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 and the reported amount of revenues and expenses during the reporting period. Our management periodically evaluates the estimates and judgments made. Management bases its estimates and judgments on historical experience and on various factors that are believed to be reasonable under

the circumstances. Actual results may differ from these estimates as a result of different assumptions or conditions.

The following summarizes critical estimates made by management in the preparation of the unaudited condensed consolidated financial statements.

#### Stock-Based Compensation

We periodically use stock-based awards, consisting of shares of common stock or stock options, to compensate certain officers and consultants. Awards are expensed on a straight line basis over the requisite service period based on the grant date fair value, net of estimated forfeitures, if any.

**Options** - The compensation cost that has been charged against income related to stock-based compensation for the three months ended March 31, 2015 and 2014 was \$1,700,908 and \$279,445, respectively, and is included in general and administrative expense in our Condensed Consolidated Statements of Operations. As of March 31, 2015, there was \$13,636,990 of total unrecognized compensation cost related to non-vested stock option awards. That cost is expected to be recognized over a weighted-average period of 2.3 years for the stock option awards.

**Restricted shares** – The compensation expense that has been charged against income related to stock-based compensation for the three months ended March 31, 2015 and 2014 was \$18,550 and \$35,358, respectively, and is included in general and administrative expense in our Condensed Consolidated Statement of Operations and Comprehensive Loss. As of March 31, 2015, a total of 7,116 restricted shares awards have been granted that remain unearned. As of March 31, 2015, total unrecognized compensation cost related to unvested awards was \$42,297 for which the weighted average period over which such compensation cost is to be recognized is 0.6 years.

### Revenue Recognition

The Company utilizes the guidance set forth in the Securities and Exchange Commission's Staff Accounting Bulletin (SAB) No. 104, regarding the recognition, presentation and disclosure of revenue in its financial statements.

For its Biomedicine segment, the Company recognizes revenue when pervasive evidence of an arrangement exists, the price is fixed and determinable, collection is reasonably assured and delivery of products or services has been rendered. The Biomedicine segment has started to generate revenues with the acquisition of AG and expects to expand revenue generating activities significantly over the next two to five years as additional therapies are developed.

### Income Taxes

Income taxes are accounted for using the asset and liability method as prescribed by ASC 740 "Income Taxes". Under this method, deferred income tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which these temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance would be provided for those deferred tax assets for which if it is more likely than not that the related benefit will not be realized.

While we have optimistic plans for our business strategy, we determined that a full valuation allowance was necessary against all net deferred tax assets as of March 31, 2015 and December 31, 2014, given the current and expected near term losses and the uncertainty with respect to our ability to generate sufficient profits from our business model.

### Results of Operations

Below is a discussion of the results of our operations for the three months ended March 31, 2015 and 2014. These results are not necessarily indicative of result that may be expected in any future period. Our prospects should be considered in light of the risks, expenses and difficulties that we may encounter. We may not be successful in addressing these risks and difficulties.



# Comparison of Three Months Ended March 31, 2015 to Three Months Ended March 31, 2014

On September 26, 2014, the Company acquired all of the outstanding equity of AG, as such, we are presenting consolidated pro forma information below to reflect the impacts of the business combination as if the transaction had occurred at the beginning of the earliest period presented. The descriptions in the results of operations below reflect our operating results as set forth in our Consolidated Statement of Operations filed herewith.

	Three Months Ended March 31, 2015 CBMG As stated	Three Months Ended March 31, 2014 CBMG As stated	Agreen Pro forma Adjustment	Pro forma Consolidated
Net sales and revenue	\$603,390	\$61,051	\$315,262	\$ 376,313
Operating expenses:				
Cost of sales	458,984	40,600	273,408	314,008
General and administrative	3,483,866	1,382,513	97,243	1,479,756
Selling and marketing	101,407	21,359	915	22,274
Research and development	734,484	498,147	48,272	546,419
Impairment of investments	123,428	-	-	-
Total operating expenses	4,902,169	1,942,619	419,838	2,362,457
Operating loss	(4,298,779 )	(1,881,568 )	(104,576 )	(1,986,144 )
Other income (expense)				
Interest income	15,111	225	29	254
Other income (expense)	(2,703 )	20,137	-	20,137
Total other income	12,408	20,362	29	20,391
Loss from continuing operations before taxes	(4,286,371 )	(1,861,206 )	(104,547 )	(1,965,753 )
Income taxes provision	(800 )	-	-	-
Loss from Continuing operations	(4,287,171 )	(1,861,206 )	(104,547 )	(1,965,753 )
Profit on discontinued operations, net of taxes	-	1,414,675	-	1,414,675
Net loss	\$(4,287,171 )	\$(446,531 )	\$(104,547 )	\$(551,078 )
Other comprehensive income (loss):				
Cumulative translation adjustment	19,609	(11,813 )	-	(11,813 )
Unrecognized loss on investments	(2,568,271 )	(521,448 )	-	(521,448 )
Total other comprehensive income (loss):	(2,548,662 )	(533,261 )	-	(533,261 )
Comprehensive loss	\$(6,835,833 )	\$(979,792 )	\$(104,547 )	\$(1,084,339 )
Loss per share for continuing operations:				
Basic	\$(0.39 )	\$(0.25 )	\$(0.14 )	\$(0.24 )
Diluted	\$(0.39 )	\$(0.25 )	\$(0.14 )	\$(0.24 )
Earnings per share for discontinued operations:				

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Basic	\$-	\$0.19	\$-	\$ 0.17
Diluted	\$-	\$0.19	\$-	\$ 0.17

Net loss per share:

Basic	\$(0.39)	) \$(0.06)	) \$(0.14)	) \$(0.07)	)
Diluted	\$(0.39)	) \$(0.06)	) \$(0.14)	) \$(0.07)	)

Weighted average common shares outstanding:

Basic	11,039,208	7,494,815	753,522	8,248,337
Diluted	11,039,208	7,494,815	753,522	8,248,337

Results of Operations

Net sales and revenue

	Net Revenues			
	2015	2014	Change	Percent
For the three months ended				
March 31, \$	603,390	\$ 61,051	\$ 542,339	888 %

In late 2014, with the acquisition of AG we have started generating revenue from cell therapy treatments. All the revenue was derived from cell therapy treatments for the three months ended March 31, 2015, while revenue was solely from sales of A-Stromal™ kits during the same period in 2014.

## Cost of Sales

	2015	2014	Cost of Sales Change	Percent
For the three months ended				
March 31, \$	458,984	\$ 40,600	\$ 418,384	1031 %

The increase in cost of sales was in line with the revenue. The cost was incurred from the cell therapy treatments in 2015 rather than the cost of the A-Stromal™ kits in 2014.

## General and Administrative Expenses

	2015	2014	General & Administrative Expenses Change	Percent
For the three months ended				
March 31, \$	3,483,866	\$ 1,382,513	\$ 2,101,353	152 %

Increased expenses in 2015 was associated with increased corporate activities related the management and the development of our biomedicine business, was primarily attributed to below facts:

- o An increase in stock-based compensation expense of \$1,405,000, which primarily resulted from the new grants and higher fair value of unvested options after the Company listed on Nasdaq from June 2014 compared with those unvested options as of March 31, 2014;
- o An increase in depreciation and amortization of \$187,000, which was mainly attributed to the knowhow and patents obtained from the acquisition of AG in third quarter 2014;
  - o An increase in payroll expenses of \$166,000; and
  - o An increase in legal, accounting and other professional services of \$211,000.

## Sales and Marketing Expenses

	2015	2014	Sales & Marketing Expenses Change	Percent
For the three months ended				
March 31, \$	101,407	\$ 21,359	\$ 80,048	375 %

We are now increasing our sales and marketing teams in the immunotherapy business. Sales and marketing expenses increased by approximately \$80,000 in the three months ended March 31, 2015 as compared to the three months ended March 31, 2014, primarily as a result of an increase in payroll expenses of \$47,000, an increase in market analysis professional fees of \$20,000, an increase in travel expenses of \$10,000 and an increase in rental, office supplies and other miscellaneous expenses of approximately \$3,000.

## Research and Development Expenses

	Research and Development Expenses				
	2015	2014	Change		Percent
For the three months ended					
March 31, \$	734,484	\$ 498,147	\$ 236,337	47	%

Research and development costs increased by approximately \$236,000 in the three months ended March 31, 2015 as compared to the three months ended March 31, 2014 due primarily to increase of our immunotherapy research and development team, which resulted in an increase in payroll expenses of \$169,000 and increase in rental of \$42,000.

# Impairment of Investments

	2015	Impairment of investments 2014	Change	Percent
For the three months ended				
March 31, \$	123,428	\$ -	\$ 123,428	N/A

The impairment of investments for the three months ended March 31, 2015 is attributed to the recognition of other than temporary impairment on the value of shares in one stock, no such expense existed in the same period 2014.

# Operating Loss

	2015	Operating Loss 2014	Change	Percent
For the three months ended				
March 31, \$	(4,298,779)	\$ (1,881,568)	\$ (2,417,211)	128 %

The decrease in the operating loss for the three months ended March 31, 2015 as compared to the same period in 2014 is primarily due to changes in revenues, general and administrative expenses and research and development expenses, each of which is described above.

# Total Other Income

	2015	Other Income 2014	Change	Percent
For the three months ended				
March 31, \$	12,408	\$ 20,362	\$ (7,954 )	(39 )%

Other income for the three months ended March 31, 2015 was primarily interest income of \$15,000, subsidy income of \$5,000, net of the disposal loss of investment stock of \$5,000 and foreign exchange loss of \$2,000. Other income for the three months ended March 31, 2014 consists primarily of foreign exchange gains and losses on transactions in our biomedicine segment.

# Income Taxes Provision

	2015	Income Taxes Provision 2014	Change	Percent
For the three months ended				
March 31, \$	(800 )	\$ -	\$ (800 )	N/A

While we have optimistic plans for our business strategy, we determined that a valuation allowance was necessary given the current and expected near term losses and the uncertainty with respect to our ability to generate sufficient profits from our business model. Therefore, we established a valuation allowance for all deferred tax assets. All the income tax expense for three months ended March 31, 2015 represents the US state current tax.

Loss from continuing operations

	2015	Loss from Continuing operations		Percent
		2014	Change	
For the three months ended				
March 31, \$	(4,287,171)	\$ (1,861,206)	\$ (2,425,965)	130 %

Changes in loss from continuing operations are primarily attributable to changes in operating loss as described above.

### Profit on discontinued operations

	2015	2014	Profit on discontinued operations, net of tax Change	Percent
For the three months ended				
March 31, \$	-	\$ 1,414,675	\$ (1,414,675)	(100 )%

Change in profit on discontinued operations is primarily attributable to our decision to terminate this Consulting business segment in second quarter 2014.

### Net Loss

	2015	2014	Net Loss Change	Percent
For the three months ended				
March 31, \$	(4,287,171)	\$ (446,531)	\$ (3,840,640)	860 %

Changes in net loss are primarily attributable to changes in operations of our biomedicine segment as and the discontinued consulting segment, each of which is described above.

### Comprehensive Net Loss

	2015	2014	Comprehensive Net Loss Change	Percent
For the three months ended				
March 31, \$	(6,835,833)	\$ (979,792)	\$ (5,856,041)	598 %

Comprehensive net loss for three months ended March 31, 2015 includes unrecognized loss on investments of approximately \$2,568,000, partially offset by currency translation of approximately \$20,000 combined with the changes in net income.

### Liquidity and Capital Resources

We had working capital of \$27,563,419 as of March 31, 2015 compared to \$12,019,143 as of December 31, 2014. Our cash position increased to \$31,144,667 at March 31, 2015 compared to \$ 14,770,584 at December 31, 2014, as we had an increase in cash generated from financing activities due to a private placement financing in March 2015 for aggregate proceeds of approximately \$19,600,000 through the sale of 515,786 shares of Common Stock, partially offset by an increase in cash used in operating activities.

Net cash provided by or used in operating, investing and financing activities from continuing operations was as follows (in thousands):

Net cash used in operating activities was approximately \$2,406,000 and \$2,379,000 for the three months ended March 31, 2015 and 2014, respectively. The following table reconciles net loss to net cash used in operating activities:

For the three months ended March 31,	2015	2014	Change
Net loss \$	(4,287,171 )	(446,531 )	\$ (3,840,640)
Non cash transactions	2,287,306	(1,060,617)	3,347,923
Changes in operating assets, net	(406,030 )	(872,197 )	466,167
Net cash used in operating activities \$	(2,405,895 )	(2,379,345 )	\$ (26,550 )

The 2015 change in non-cash transaction was primarily due to the increase in share based compensation of \$1,405,000 and decrease in stock received for services of \$1,610,000 compared with same period in 2014.

Net cash used in investing activities was approximately \$748,000 and \$19,000 in the three months ended March 31, 2015 and 2014, respectively. These amounts were primarily the result of purchases of fixed assets and intangible assets.

Cash provided by financing activities was approximately \$19,591,000 and \$1,189,000 in the three months ended March 31, 2015 and 2014, respectively. These amounts were mainly attributable to the proceeds received from the issuance of common stock.



## Liquidity and Capital Requirements Outlook

We anticipate that the Company will require approximately \$15 million in cash to operate as planned during the 2015 calendar year. Of this amount, approximately \$9 million will be used to operate our facilities and offices, including but not limited to payroll expenses, rent and other operating costs, and to fund our research and development as we continue to develop our products through the clinical study process. As part of the \$9 million amount noted above, we anticipate approximately \$5 million will be needed during 2015 to fund our currently planned clinical trials for KOA, CD and Cancer therapy. In addition, we anticipated approximately \$1.9 million will be used to acquire the advanced cancer therapy technology, such as CAR-T and anti-PD-1 technology, approximately \$1.6 million will be used to settle the remaining cash consideration of AG acquisition and \$2.6 million will be used to expand our physical plant and facilities and inject the working capital in our immune cell therapy business, although we may revise these plans depending on the changing circumstances of our biomedicine business.

We expect to rely on current cash balances that we hold to provide for these capital requirements. We do not intend to use, and will not rely on our holdings in securities to fund our operations. One of our stock held, Wonder International Education & Investment Group Corporation, is delinquent in its SEC filings for multiple periods. We do not know whether we can liquidate our 2,131,105 shares of Wonder International Education & Investment Group Corporation stock or any of our other portfolio securities, or if liquidated, whether the realized amount will be meaningful at all.

As of March 27, 2015, we had received approximately \$19,600,000 from our latest private placement sale of equity. As we continue to incur losses, achieving profitability is dependent upon the successful development of our immune therapy business and commercialization of our technology in research and development phase, which is a number of years in the future. Once that occurs, we will have to achieve a level of revenues adequate to support our cost structure. We may never achieve profitability, and unless and until we do, we will continue to need to raise additional capital. Over the next 12 months ending March 31, 2016, we estimate negative operating cash flow of approximately \$10 million. Management intends to fund future operations through additional private or public debt or equity offerings, and may seek additional capital through arrangements with strategic partners or from other sources.

Our medium to long term capital needs involve the further development of our biomedicine business, and may include, at management's discretion, new clinical trials for other indications, strategic partnerships, joint ventures, acquisition of licensing rights from new partners, expansion of our license rights with our current joint venture partner or changes in the structure of such joint venture, and/or expansion of our research and development programs. Furthermore, as our therapies pass through the clinical trial process and if they gain regulatory approval, we expect to expend significant resources on sales and marketing of our future products, services and therapies.

In order to finance our medium to long term plans, we intend to rely upon external financing. This financing may be in the form of equity and or debt, in private placements and/or public offerings, or arrangements with private lenders. Due to our short operating history and our early stage of development, particularly in our biomedicine business, we may find it challenging to raise capital on terms that are acceptable to us, or at all. Furthermore our negotiating position in the capital raising process may worsen as we consume our existing resources. Investor interest in a company such as ours is dependent on a wide array of factors, including the state of regulation of our industry in China (e.g. the policies of MOH and the CFDA), the U.S. and other countries, political headwinds affecting our industry, the investment climate for issuers involved in businesses located or conducted within China, the risks associated with our corporate structure, risks relating to our joint venture partners, licensed intellectual property, as well as the condition of the global economy and financial markets in general. Additional equity financing may be dilutive to our stockholders; debt financing, if available, may involve significant cash payment obligations and covenants that restrict our ability to operate as a business; our stock price may not reach levels necessary to induce option or warrant exercises; and asset sales may not be possible on terms we consider acceptable. If we are unable to

raise the capital necessary to meet our medium- and long-term liquidity needs, we may have to delay or discontinue certain clinical trials, the licensing, acquisition and/or development of cell therapy technologies, and/or the expansion of our biomedicine business; or we may have to raise funds on terms that we consider unfavorable.

#### Off Balance Sheet Transactions

CBMG does not have any off-balance sheet arrangements except the lease and capital commitment disclosed in the unaudited condensed consolidated financial statements.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a smaller reporting company we are not required to provide this information.

### ITEM 4. CONTROLS AND PROCEDURES

#### Disclosure Controls and Procedures

Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Securities Exchange Act of 1934, as amended (the “Exchange Act”) is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms. It should be noted that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered in this report, our disclosure controls and procedures were effective to ensure that information required to be disclosed in reports filed under the Exchange Act is recorded, processed, summarized and reported within the required time periods and is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

#### Changes in Internal Control over Financial Reporting

During the three months ended March 31, 2015, there was no change in our internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II – OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

During the period covered by this report, we were not involved in any litigation that we believe could have a materially adverse effect on our financial condition or results of operations.

### ITEM 1A. RISK FACTORS

During the three months ended March 31, 2015, there were no material changes to the risk factors disclosed in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2014 except the risk set forth below.

The Company's businesses may become subject to legal proceedings that may adversely affect the Company's financial condition.

The Company's business is subject to the risk of legal proceedings by employees, customers, suppliers, stockholders, debt holders, governmental agencies or others through private actions, class actions, administrative proceedings, regulatory actions or other litigation. The outcome of litigation, particularly class action lawsuits and regulatory actions, is difficult to assess or quantify. Plaintiffs in these types of lawsuits may seek recovery of very large or indeterminate amounts, and the magnitude of the potential loss relating to such lawsuits may remain unknown for substantial periods of time. The cost to defend future litigation may be significant. Our Board of Directors, management and employees may expend a substantial amount of time on any pending litigation, diverting resources and attention that would otherwise be directed toward our operations and implementation of our business strategy. There may also be adverse publicity associated with litigation that may decrease consumer confidence in the Company's businesses, regardless of whether the allegations are valid or whether the Company is ultimately found liable. As a result, litigation may adversely affect the Company's financial condition or cash flows.

Currently, the Company has a pending class action complaint filed against it. See also "Note 20 Subsequent Events" of the unaudited condensed consolidated financial statements.

### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

All unregistered sales and issuances of equity securities for the three months ended March 31, 2015 were previously disclosed in a Form 8-K filed with the SEC.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

### ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

### ITEM 5. OTHER INFORMATION

None.

### ITEM 6. EXHIBITS

Exhibits

Exhibit

Number	Description
<u>31.1</u>	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 - Chief Executive Officer.
<u>31.2</u>	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 - Chief Financial Officer.
<u>32.1</u>	Certifications Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CELLULAR BIOMEDICINE GROUP, INC.  
(Registrant)

Date: May 15, 2015

By: /s/ Wei (William) Cao  
Wei (William) Cao  
Chief Executive Officer (Principal  
Executive Officer)

By: /s/ Bizuo (Tony) Liu  
Bizuo (Tony) Liu  
Chief Financial Officer (Principal  
Financial and Accounting Officer)