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Cellular Biomedicine Group, Inc.  
Form 10-Q  
August 08, 2017

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 June 30, 2017

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 of Incorporation IRS Employer Identification No.

19925 Stevens Creek Blvd., Suite 100  
Cupertino, California 95014  
(Address of principal executive offices)

(408) 973-7884  
(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            Accelerated filer  
Non-accelerated filer            Smaller reporting company  
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 August 3, 2017, there were 14,343,050 and 14,108,789 shares of common stock, par value \$.001 per share, issued and outstanding, respectively.



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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 JUNE 30, 2017 AND DECEMBER 31, 2016

	June 30, 2017	December 31, 2016
Assets		
Cash and cash equivalents	\$27,298,445	\$39,252,432
Accounts receivable, less allowance for doubtful amounts of \$10,407 and \$10,163 as of June 30, 2017 and December 31, 2016, respectively	91,462	39,974
Other receivables	1,014,721	412,727
Prepaid expenses	995,128	986,951
Total current assets	29,399,756	40,692,084
Investments	269,424	509,424
Property, plant and equipment, net	7,043,131	4,117,739
Goodwill	7,678,789	7,678,789
Intangibles, net	13,260,015	14,092,581
Long-term prepaid expenses and other assets	2,226,327	1,537,850
Total assets (1)	\$59,877,442	\$68,628,467
Liabilities and Stockholders' Equity		
Liabilities:		
Accounts payable	\$1,169,311	\$216,154
Accrued expenses	592,582	1,168,787
Taxes payable	28,875	28,875
Deferred income	1,069,515	-
Other current liabilities	1,660,093	950,220
Total current liabilities	4,520,376	2,364,036
Other non-current liabilities	-	370,477
Total liabilities (1)	4,520,376	2,734,513
Commitments and Contingencies (note 12)		
Stockholders' equity:		

Preferred stock, par value \$.001, 50,000,000 shares authorized; none issued and outstanding as of June 30, 2017 and December 31, 2016, respectively	-	-
Common stock, par value \$.001, 300,000,000 shares authorized; 14,336,474 and 14,281,378 issued; and 14,166,305 and 14,281, 378 outstanding, as of June 30, 2017 and December 31, 2016, respectively	14,336	14,281
Treasury stock at cost; 170,169 and nil shares of common stock as of June 30, 2017 and December 31, 2016, respectively	(1,357,931)	-
Additional paid in capital	155,623,430	152,543,052
Accumulated deficit	(97,912,198)	(85,546,687)
Accumulated other comprehensive income (loss)	(1,010,571)	(1,116,692)
Total stockholders' equity	55,357,066	65,893,954
Total liabilities and stockholders' equity	\$59,877,442	\$68,628,467

The Company's consolidated assets as of June 30, 2017 and December 31, 2016 included \$14,179,292 and \$9,626,171, 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 June 30, 2017 and December 31, 2016, respectively. These assets include cash and cash equivalents of \$2,733,456 and \$4,021,992; other receivables of \$709,064 and \$370,702; prepaid expenses of \$853,063 and \$777,445; property, plant and equipment, net, of (1) \$6,478,932 and \$2,398,576; intangibles of \$1,568,891 and \$1,613,582; and long-term prepaid expenses and other assets of \$1,835,886 and \$443,874. The Company's consolidated liabilities as of June 30, 2017 and December 31, 2016 included \$1,881,550 and \$1,372,391, respectively, of liabilities of the VIEs whose creditors have no recourse to the Company. These liabilities include accounts payable of \$1,097,437 and \$161,825; other payables of \$472,837 and \$407,769; payroll accrual of \$311,276 and \$792,706; and other non-current liabilities of \$nil and \$10,091. See further description in Note 3, Variable Interest Entities.

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



CELLULAR BIOMEDICINE GROUP, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS  
(UNAUDITED)  
FOR THE THREE MONTHS AND SIX MONTHS ENDED JUNE 30, 2017 AND 2016

	For the Three Months Ended		For the Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Net sales and revenue	\$62,914	\$71,599	\$161,339	\$560,090
Operating expenses:				
Cost of sales	38,097	323,587	75,499	826,780
General and administrative	3,319,093	3,072,647	6,504,340	5,848,572
Selling and marketing	76,385	39,480	194,269	218,234
Research and development	3,349,509	2,972,855	6,393,634	5,371,217
Total operating expenses	6,783,084	6,408,569	13,167,742	12,264,803
Operating loss	(6,720,170)	(6,336,970)	(13,006,403)	(11,704,713)
Other income :				
Interest income	40,573	18,290	89,755	35,340
Other income	476,079	7,646	553,587	23,966
Total other income	516,652	25,936	643,342	59,306
Loss before taxes	(6,203,518)	(6,311,034)	(12,363,061)	(11,645,407)
Income taxes credit (provision)	-	(886,248)	(2,450)	238,012
Net loss	\$(6,203,518)	\$(7,197,282)	\$(12,365,511)	\$(11,407,395)
Other comprehensive income (loss):				
Cumulative translation adjustment	292,452	(271,438)	346,121	(255,365)
Unrealized gain (loss) on investments, net of tax	(240,000)	(11,115,884)	(240,000)	5,300,633
Total other comprehensive income (loss):	52,452	(11,387,322)	106,121	5,045,268
Comprehensive loss	\$(6,151,066)	\$(18,584,604)	\$(12,259,390)	\$(6,362,127)
Net loss per share :				
Basic	\$(0.43)	\$(0.52)	\$(0.87)	\$(0.89)
Diluted	\$(0.43)	\$(0.52)	\$(0.87)	\$(0.89)

Weighted average common shares outstanding:

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Basic	14,298,973	13,737,722	14,211,888	12,810,894
Diluted	14,298,973	13,737,722	14,211,888	12,810,894

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



CELLULAR BIOMEDICINE GROUP, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (UNAUDITED)  
 FOR THE SIX MONTHS ENDED JUNE 30, 2017 AND 2016

	For the Six Months Ended	
	June 30,	
	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$(12,365,511)	\$(11,407,395)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,369,168	1,349,137
Gain on disposal of assets	(49)	-
Stock based compensation expense	2,902,113	2,412,261
Inventory provision	-	105,919
Allowance for doubtful account	-	10,782
Changes in operating assets and liabilities:		
Accounts receivable	(50,557)	275,333
Other receivables	(488,480)	20,521
Inventory	-	(25,309)
Prepaid expenses	13,246	(457,032)
Taxes recoverable	-	150,082
Long-term prepaid expenses and other assets	(237,637)	(259,624)
Accounts payable	949,142	(124,531)
Accrued expenses	(595,382)	(387,695)
Deferred income	1,069,515	-
Other current liabilities	35,542	(152,605)
Taxes payable	-	30,000
Deferred tax liabilities	-	(242,267)
Other non-current liabilities	(379,161)	(50,049)
Net cash used in operating activities	(7,778,051)	(8,752,472)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from disposal of assets	286	-
Purchases of intangibles	(23,339)	-
Purchases of assets	(3,014,055)	(1,161,568)
Net cash used in investing activities	(3,037,108)	(1,161,568)

CASH FLOWS FROM FINANCING ACTIVITIES:

Net proceeds from the issuance of common stock	-	42,437,374
Proceeds from exercise of stock options	73,779	175,399
Repurchase of treasury stock	(1,357,931)	-
Net cash provided by financing activities	(1,284,152)	42,612,773

EFFECT OF EXCHANGE RATE CHANGES ON CASH	145,324	(113,134)
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INCREASE IN CASH AND CASH EQUIVALENTS	(11,953,987)	32,585,599
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	39,252,432	14,884,597
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$27,298,445	\$47,470,196

SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid for income taxes	\$-	\$(6,705)
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The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.



CELLULAR BIOMEDICINE GROUP, INC.  
FOR THE THREE MONTHS ENDED JUNE 30, 2017 AND 2016  
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 platforms: (i) Immune Cell therapy for treatment of a broad range of cancers using: Chimeric Antigen Receptor T cell (CAR-T), cancer vaccine, and T Central Memory Cell (Tcm) technology, 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 diseases such as cancer, orthopedic diseases, 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 stem cell based therapies to treat knee osteoarthritis ("KOA"). We have completed Phase IIb autologous haMPC KOA clinical study and published its promising results. Led by Shanghai Renji Hospital, one of the largest teaching hospitals in China, we launched Phase I clinical trial of an off-the-shelf allogeneic haMPC (AlloJoin™) therapy for KOA. We have completed patient recruitment and treatment for Phase I clinical studies of KOA on August 5, 2016. With the award of California Institute of Regenerative Medicine's (CIRM) \$2.29 million grant we have started manufacturing AlloJoin™ product for KOA preclinical and clinical studies in the United States.

Our primary target market is Greater China. We believe that the results of our research, the acquired knowhow and clinical study results will help to cure or alleviate illness and suffering of the patients. We expect to carry out the clinical studies leading to eventual CFDA approval through IND filings and authorized treatment centers throughout Greater China.

With the acquisition of the University of South Florida's license on the next generation GVAX vaccine (CD40LGVAX) and its related standard operational procedures (SOPs), we have expanded our immuno-oncology portfolio significantly. We plan to use the knowledge we obtained from the previous phase I clinical study conducted in the U.S. by the Moffitt Cancer center to support an investigator sponsored trial to evaluate the potential synergistic effect of the combination of CD40LGVAX with anti-PD1 checkpoint inhibitor, to treat a selected segment of late stage non-small cell lung cancer (NSCLC) adenocarcinoma patients. We may also seek approval to conduct clinical trials with leading non-U.S. medical centers or seek partnership for CD40LGVAX sub-license opportunities.

With our recent build-up of multiple cancer therapeutic technologies, we have prioritized our clinical efforts on launching multiple trials for CAR-Ts in several indications and not actively pursuing the fragmented technical services opportunities. We are striving to build a highly competitive research and development function, a translational medicine team, along with a well-established cellular manufacturing capability for clinical grade materials, to support the development of multiple assets in several cancer indications. These efforts will allow us to boost the Company's Immuno-Oncology presence and pave the way for future partnerships.

## Corporate History

Cellular Biomedicine Group, Inc., was originally incorporated in the State of Arizona on June 25, 2001 and changed its corporate headquarters to California in March 2013. At the end of September 2015, the Company moved its corporate headquarters to 19925 Stevens Creek Blvd., Suite 100 in Cupertino, California. The Company is a biopharmaceutical company focused on developing therapies to improve the health of patients 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 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, 2016 included in our Annual Report on Form 10-K for the year ended December 31, 2016. Operating results for the three and six months ended June 30, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017.

### 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 June 30, 2017 and the results of operations for the three and six months ended June 30, 2017 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.

### Treasury Stock

The treasury stock are recorded and carried at their repurchase cost. The Company recorded the entire purchase price of the treasury stock as a reduction of equity. A gain and or loss will be determined when treasury stock is reissued or retired, and the original issue price and book value of the stock do not enter into the accounting. Additional paid-in capital from treasury stock is credited for gains and debited for losses when treasury stock is reissued at prices that differ from the repurchase cost.

### Government Grants

Government grants are recognized in the balance sheet initially when there is reasonable assurance that they will be received and that the enterprise will comply with the conditions attached to them. When the Company received the government grants but the conditions attached to the grants have not been fulfilled, such government grants are deferred and recorded as deferred income. The reclassification of short-term or long-term liabilities is depended on the management’s expectation of when the conditions attached to the grant can be fulfilled. Grants that compensate the Company for expenses incurred are recognized as other income in statement of income on a systematic basis in the same periods in which the expenses are incurred.

For the three and six months ended June 30, 2017, the Company received government grants of \$1,217,548 and \$1,287,443, respectively for purpose of R&D and related capital expenditure, as compared to \$732 and \$1,997 for the three and six months ended June 30, 2016, respectively. Government subsidies recognized as other income in the statement of income for the three and six months ended June 30, 2017 were \$512,010 and \$591,931, as compared to

\$732 and \$1,997 for the three and six months ended June 30, 2016, respectively.

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## Recent Accounting Pronouncements

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

In May 2017, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2017-09, “Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting” (“ASU 2017-09”), which provides guidance on determining which changes to the terms and conditions of share-based payment awards require an entity to apply modification accounting under Topic 718. The amendments in this ASU are effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted, including adoption in any interim period, for (1) public business entities for reporting periods for which financial statements have not yet been issued and (2) all other entities for reporting periods for which financial statements have not yet been made available for issuance. The amendments in this ASU should be applied prospectively to an award modified on or after the adoption date. We do not expect the adoption of ASU 2017-09 to have a material impact on our consolidated financial statements.

In February 2017, the FASB issued ASU No. 2017-05, “Other Income —Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets” (“ASU 2017-05”), which clarifies the scope of the nonfinancial asset guidance in Subtopic 610-20. This ASU also clarifies that the derecognition of all businesses and nonprofit activities (except those related to conveyances of oil and gas mineral rights or contracts with customers) should be accounted for in accordance with the derecognition and deconsolidation guidance in Subtopic 810-10. The amendments in this ASU also provide guidance on the accounting for what often are referred to as partial sales of nonfinancial assets within the scope of Subtopic 610-20 and contributions of nonfinancial assets to a joint venture or other noncontrolled investee. The amendments in this ASU are effective for annual reporting reports beginning after December 15, 2017, including interim reporting periods within that reporting period. Public entities may apply the guidance earlier but only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. We do not expect the adoption of ASU 2017-05 to have a material impact on our consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, “Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment” (“ASU 2017-04”), which removes Step 2 from the goodwill impairment test. An entity will apply a one-step quantitative test and record the amount of goodwill impairment as the excess of a reporting unit’s carrying amount over its fair value, not to exceed the total amount of goodwill allocated to the reporting unit. The new guidance does not amend the optional qualitative assessment of goodwill impairment. Public business entity that is a U.S. Securities and Exchange Commission filer should adopt the amendments in this ASU for its annual or any interim goodwill impairment test in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. We are currently evaluating the impact of the adoption of ASU 2017-04 on our consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, “Statement of Cash Flows (Topic 230): Restricted Cash” (“ASU 2016-18”), which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in this ASU do not provide a definition of restricted cash or restricted cash equivalents. The amendments in this ASU are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. We do not expect the adoption of ASU 2016-18 to have a material impact on our consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments” (“ASU 2016-15”), which addresses the following eight specific cash flow issues: debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies (including bank-owned life insurance policies); distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. The amendments in this ASU are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. We do not expect the adoption of ASU 2016-15 to have a material impact on our consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, “Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments” (“ASU 2016-13”). Financial Instruments—Credit Losses (Topic 326) amends guideline on reporting credit losses for assets held at amortized cost basis and available-for-sale debt securities. For assets held at amortized cost basis, Topic 326 eliminates the probable initial recognition threshold in current GAAP and, instead, requires an entity to reflect its current estimate of all expected credit losses. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial assets to present the net amount expected to be collected. For available-for-sale debt securities, credit losses should be measured in a manner similar to current GAAP, however Topic 326 will require that credit losses be presented as an allowance rather than as a write-down. ASU 2016-13 affects entities holding financial assets and net investment in leases that are not accounted for at fair value through net income. The amendments affect loans, debt securities, trade receivables, net investments in leases, off balance sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. The amendments in this ASU will be effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. We are currently evaluating the impact of the adoption of ASU 2016-13 on our consolidated financial statements.



In February 2016, the FASB issued ASU No. 2016-02, “Leases (Topic 842)” (“ASU 2016-02”). The amendments in this update create Topic 842, Leases, and supersede the leases requirements in Topic 840, Leases. Topic 842 specifies the accounting for leases. The objective of Topic 842 is to establish the principles that lessees and lessors shall apply to report useful information to users of financial statements about the amount, timing, and uncertainty of cash flows arising from a lease. The main difference between Topic 842 and Topic 840 is the recognition of lease assets and lease liabilities for those leases classified as operating leases under Topic 840. Topic 842 retains a distinction between finance leases and operating leases. The classification criteria for distinguishing between finance leases and operating leases are substantially similar to the classification criteria for distinguishing between capital leases and operating leases in the previous leases guidance. The result of retaining a distinction between finance leases and operating leases is that under the lessee accounting model in Topic 842, the effect of leases in the statement of comprehensive income and the statement of cash flows is largely unchanged from previous GAAP. The amendments in ASU 2016-02 are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years for public business entities. Early application of the amendments in ASU 2016-02 is permitted. We are currently evaluating the impact of the adoption of ASU 2016-02 on our consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, “Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities” (“ASU 2016-01”). The amendments in this update require all equity investments to be measured at fair value with changes in the fair value recognized through net income (other than those accounted for under equity method of accounting or those that result in consolidation of the investee). The amendments in this update also require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. In addition the amendments in this update eliminate the requirement for to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet for public entities. For public business entities, the amendments in ASU 2016-01 are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Except for the early application guidance discussed in ASU 2016-01, early adoption of the amendments in this update is not permitted. We do not expect the adoption of ASU 2016-01 to have a material impact 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. The FASB issued ASU No. 2015-14, “Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date” (“ASU 2015-14”) in August 2015. The amendments in ASU 2015-14 defer the effective date of ASU 2014-09. Public business entities, certain not-for-profit entities, and certain employee benefit plans should apply the guidance in ASU 2014-09 to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Earlier adoption is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. Further to ASU 2014-09 and ASU 2015-14, the FASB issued ASU No. 2016-08, “Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)” (“ASU 2016-08”) in March 2016, ASU No. 2016-10, “Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing” (“ASU 2016-10”) in April 2016, ASU No. 2016-12, “Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients” (“ASU 2016-12”), and ASU No. 2016-20, “Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers” (“ASU 2016-20”), respectively. The amendments in ASU 2016-08 clarify the implementation guidance on principal versus agent considerations, including indicators to assist an entity in determining whether it controls a specified good or service before it is transferred to the customers. ASU 2016-10 clarifies guideline related to identifying performance obligations and licensing implementation guidance contained in

the new revenue recognition standard. The updates in ASU 2016-10 include targeted improvements based on input the FASB received from the Transition Resource Group for Revenue Recognition and other stakeholders. It seeks to proactively address areas in which diversity in practice potentially could arise, as well as to reduce the cost and complexity of applying certain aspects of the guidance both at implementation and on an ongoing basis. ASU 2016-12 addresses narrow-scope improvements to the guidance on collectability, non-cash consideration, and completed contracts at transition. Additionally, the amendments in this ASU provide a practical expedient for contract modifications at transition and an accounting policy election related to the presentation of sales taxes and other similar taxes collected from customers. The amendments in ASU 2016-20 represents changes to make minor corrections or minor improvements to the Codification that are not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities. The effective date and transition requirements for ASU 2016-08, ASU 2016-10, ASU 2016-12 and ASU 2016-20 are the same as ASU 2014-09. We do not expect the adoption of ASU 2014-09, ASU 2016-08, ASU 2016-10, ASU 2016-12 and ASU 2016-20 to have a material impact on our consolidated financial statements.



## NOTE 3 – 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 and immune therapy research and clinical trials in China. The registered shareholders of CBMG Shanghai are Lu Junfeng 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. Agreen Biotech Co. Ltd. (“AG”) was 100% acquired by CBMG Shanghai in September 2014. AG was incorporated on April 27, 2011 and its registered capital is five million RMB. In January 2017, CBMG Shanghai established two fully owned subsidiaries - Wuxi Cellular Biopharmaceutical Group Ltd. and Shanghai Cellular Biopharmaceutical Group Ltd, which are located in Wuxi and Shanghai respectively. For the period ended June 30, 2017 and 2016, nil and 89% of the Company revenue is derived from VIEs respectively.

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 Topic 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 Risk Factors below regarding “Risks Related to Our Structure”. The Company has not provided any guarantees related to VIEs and no creditors of VIEs have recourse to the general credit of the Company.

As the primary beneficiary of CBMG Shanghai and its subsidiaries, the Company consolidates in its financial statements the financial position, results of operations, and cash flows of CBMG Shanghai and its subsidiaries, and all intercompany balances and transactions between the Company and CBMG Shanghai and its subsidiaries are eliminated in the 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 June 30, 2017 and December 31, 2016 are as follows:

June 30,	December 31,
----------	--------------

	2017	2016
<b>Assets</b>		
Cash	\$2,733,456	\$4,021,992
Other receivables	709,064	370,702
Prepaid expenses	853,063	777,445
Total current assets	4,295,583	5,170,139
Property, plant and equipment, net	6,478,932	2,398,576
Intangibles	1,568,891	1,613,582
Long-term prepaid expenses and other assets	1,835,886	443,874
Total assets	\$14,179,292	\$9,626,171
<b>Liabilities</b>		
Accounts payable	\$1,097,437	\$161,825
Other payables	472,837	407,769
Payroll accrual	311,276	792,706
Total current liabilities	\$1,881,550	\$1,362,300
Other non-current liabilities	-	10,091
Total liabilities	\$1,881,550	\$1,372,391



## NOTE 4 – OTHER RECEIVABLES

The Company pays deposits on various items relating to office expenses and collects option exercise fees from brokers when stock options of the Company are exercised. Management has classified these deposits as other receivables as the intention is to recover these deposits in less than 12 months. As of June 30, 2017 and December 31, 2016 the amounts of other receivables was \$1,014,721 and \$412,727, respectively.

## NOTE 5 – PROPERTY, PLANT AND EQUIPMENT

As of June 30, 2017 and December 31, 2016, property, plant and equipment, carried at cost, consisted of the following:

	June 30, 2017	December 31, 2016
Office equipment	\$80,998	\$80,485
Manufacturing equipment	3,881,199	3,347,458
Computer equipment	201,664	162,769
Leasehold improvements	3,989,499	1,912,573
Construction work in process	1,930,058	1,172,433
	10,083,418	6,675,718
Less: accumulated depreciation	(3,040,287)	(2,557,979)
	\$7,043,131	\$4,117,739

For the three and six months ended June 30, 2017, depreciation expense was \$252,499 and \$475,425, respectively, as compared to \$222,960 and \$440,698 for the three and six months ended June 30, 2016, respectively.

## NOTE 6 – INVESTMENTS

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

June 30, 2017	Cost	Gross Unrealized Gains	Gross Unrealized Losses more than 12 months	Gross Unrealized Losses less than 12 months	Market or Fair Value
Equity position in Alpha Lujó, Inc.	\$251,388	\$-	\$-	\$(221,964)	\$29,424
Equity position in Arem Pacific Corporation	480,000	-	-	(240,000)	240,000
Total	\$731,388	\$-	\$-	\$(461,964)	\$269,424

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December 31, 2016	Cost	Gross Unrealized Gains	Gross Unrealized Losses more than 12 months	Gross Unrealized Losses less than 12 months	Market or Fair Value
Equity position in Alpha Lujó, Inc.	\$251,388	\$-	\$-	\$(221,964)	\$29,424
Equity position in Arem Pacific Corporation	480,000	-	-	-	480,000
Total	\$731,388	\$-	\$-	\$(221,964)	\$509,424

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The unrealized holding gain (loss) for the investments, net of tax that were recognized in other comprehensive income for the three and six months ended June 30, 2017 was \$(240,000), as compared to \$(11,115,884) and \$5,300,633 for the three and six months ended June 30, 2016, 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. There is no other-than-temporary impairment of investments for the three months ended June 30, 2017 and 2016.

#### NOTE 7 – 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 limited trading of the three stocks traded in OTC market.

Assets measured at fair value within Level 2 on a recurring basis as of June 30, 2017 and December 31, 2016 are summarized as follows:

As of June 30, 2017

Fair Value Measurements at Reporting Date Using:

Quoted Prices in	Significant Other	Significant
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		Active Markets for	Observable	Unobservable
		Identical Assets	Inputs	Inputs
	Total	(Level 1)	(Level 2)	(Level 3)
Assets:				
Equity position in Alpha Lujo, Inc.	\$29,424	\$-	\$29,424	\$-
Equity position in Arem Pacific Corporation	240,000	-	240,000	-
	\$269,424	\$-	\$269,424	\$-



As of December 31, 2016

Fair Value Measurements at Reporting Date Using:

	Quoted Prices in	Significant Other	Significant
	Active Markets for	Observable	Unobservable
	Identical Assets	Inputs	Inputs
Total	(Level 1)	(Level 2)	(Level 3)
Assets:			
Equity position in Alpha Lujo, Inc.	\$29,424	\$-	\$29,424
Equity position in Arem Pacific Corporation	480,000	-	480,000
	\$509,424	\$-	\$509,424

No shares were acquired in the six months ended June 30, 2017 and 2016.

As of June 30, 2017 and December 31, 2016, the Company holds 8,000,000 shares in Arem Pacific Corporation, 2,942,350 shares in Alpha Lujo, Inc. and 2,057,131 shares in Wonder International Education and Investment Group Corporation (“Wonder”), respectively. Full impairment has been provided for shares of Wonder. All available-for-sale investments held by the Company at June 30, 2017 and December 31, 2016 have been valued based on level 2 inputs due to the limited trading of all two of these companies.

#### NOTE 8 – 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 June 30, 2017 and December 31, 2016, intangible assets, net consisted of the following:

Patents & knowhow & license

June 30, 2017	December 31, 2016
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Cost basis	\$17,604,856	\$17,560,496
Less: accumulated amortization	(4,426,888)	(3,539,617)
	\$13,177,968	\$14,020,879

Software

	June 30, 2017	December 31, 2016
Cost basis	\$152,661	\$125,964
Less: accumulated amortization	(70,614)	(54,262)
	\$82,047	\$71,702
Total intangibles, net	\$13,260,015	\$14,092,581



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 and six months ended June 30, 2017 was \$446,930 and \$893,743, respectively, and amortization expense for the three and six months ended June 30, 2016 was \$454,528 and \$908,439, respectively.

Estimated amortization expense for each of the ensuing years are as follows for the years ending June 30:

Years ending June 30, Amount

2018	\$1,785,135
2019	1,780,723
2020	1,779,654
2021	1,774,009
2022 and thereafter	6,140,494
	\$13,260,015

NOTE 9 – 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 and six months ended June 30, 2017 was approximately \$890,060 and \$1,784,945, respectively, as compared to \$276,884 and \$575,683 for the three and six months ended June 30, 2016, respectively.

As of June 30, 2017, the Company has the following future minimum lease payments due under the foregoing lease agreements:

Years ending June 30, Amount

2018	\$4,062,466
2019	2,758,827
2020	2,667,470
2021	2,457,646
2022 and thereafter	13,405,103
	\$25,351,512

NOTE 10 – RELATED PARTY TRANSACTIONS

As of June 30, 2017 and December 31, 2016, accrued expenses included director fees of \$14,482 and \$3,082 due to independent director Mr. Gang Ji.

NOTE 11 – 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.

On February 4, 2016, the Company conducted an initial closing of a financing transaction (the “Financing”), pursuant to which it sold an aggregate of 263,158 shares of the Company’s common stock, par value \$0.001 per share to Wuhan Dangdai Science & Technology Industries Group Inc. (the “Investor”) at \$19.00 per share, for total gross proceeds of approximately \$5,000,000. The Investor agreed to purchase, in one or more subsequent closings, up to an additional 2,006,842 shares on or before April 15, 2016, for a potential aggregate additional raise of \$38,130,000. The Company had received the proceeds of \$5,000,000 on February 4, 2016.



On April 15, 2016, the Company completed the second and final closing of the Financing with the Investor, pursuant to which the Company sold to the Investor 2,006,842 shares of the Company's Common Stock, for approximately \$38,130,000 in gross proceeds. The aggregate gross proceeds from both closings in the Financing totaled approximately \$43,130,000. In the aggregate, 2,270,000 shares of Common Stock were issued in the Financing.

In connection with the above Financing, the Company agreed to pay a finder's fee equal to 5% of the gross proceeds comprised of (i) \$657,628 from the gross proceeds of the Financing and (ii) 78,888 restricted shares of Common Stock based on the per share purchase price in the Financing of \$19 per share. On April 28, 2016, 78,888 shares of common stock were issued to the finder, which was recorded against the equity.

During the three and six months ended June 30, 2017, the Company expensed \$1,219,219 and \$2,634,970 associated with unvested option awards and \$250,987 and \$267,143 associated with restricted common stock issuances, respectively. During the three and six months ended June 30, 2016, the Company expensed \$957,782 and \$2,049,816 associated with unvested options awards and \$188,416 and \$362,445 associated with restricted common stock issuances, respectively.

During the three and six months ended June 30, 2017, options for 32,400 and 33,000 underlying shares were exercised on a cash basis, 32,400 and 33,000 shares of the Company's common stock were issued accordingly. During the three and six months ended June 30, 2016, options for 2,350 and 28,735 underlying shares were exercised on a cash basis, 2,350 and 28,735 shares of the Company's common stock were issued accordingly.

During the three and six months ended June 30, 2017, 18,061 and 22,096 of the Company's restricted common stock were issued respectively. During the three and six months ended June 30, 2016, 9,960 shares of the Company's restricted common stock were issued.

During the three and six months ended June 30, 2017, the Company repurchased 170,169 shares of the Company's common stock with the total cost of \$1,357,931. There was no repurchase of stock during the three and six months ended June 30, 2016. Details are as follows:

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum dollar value of shares that may yet be purchased under the plans or programs
June 9, 2017 ~ June 30, 2017	170,169	\$7.98	170,169	\$8,642,069

The Company's Board of Directors has approved a new stock repurchase program granting the company authority to repurchase up to \$10 million in common shares (the "2017 Stock Repurchase Program") through open market purchases pursuant to a plan adopted in accordance with Rule 10b5-1 of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and in accordance with Rule 10b-18 of the Exchange Act and was announced on June 1, 2017.

#### NOTE 12 – COMMITMENTS AND CONTINGENCIES

##### Capital commitments

As of June 30, 2017, the capital commitments of the Company are summarized as follows:

June 30,  
2017

Contracts for acquisition of plant and equipment being or to be executed \$5,670,138

NOTE 13 – 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 options for the three and six months ended June 30, 2017 was \$1,219,219 and \$2,634,970, respectively, and for the three and six months ended June 30, 2016 was \$957,782 and \$2,049,816, respectively. The compensation cost that has been charged against income related to restricted stock awards for the three and six months ended June 30, 2017 was \$250,987 and \$267,143, respectively, and for the three and six months ended June 30, 2016 was \$188,416 and \$362,445, respectively.



As of June 30, 2017, there was \$6,506,984 all unrecognized compensation cost related to an aggregate of 764,998 of non-vested stock option awards and \$493,720 related to an aggregate of 33,805 of non-vested restricted stock awards. These costs are expected to be recognized over a weighted-average period of 2.16 years for the stock options awards and 0.89 years for the restricted stock awards.

During the three months ended June 30, 2017, the Company issued options under the 2011 Plan, 2013 Plan and 2014 Plan of an aggregate of 123,997 shares of the Company's common stock. The grant date fair value of these options was \$825,134 using Black-Scholes option valuation models with the following assumptions: exercise price equal to the grant date stock price of \$5.3 to \$11.15, volatility 88.04% to 88.86%, expected life 6.0 years, and risk-free rate of 1.86% to 1.99%. The Company is expensing these options on a straight-line basis over the requisite service period.

During the six months ended June 30, 2017, the Company issued options under the 2011 Plan, 2013 Plan and 2014 Plan of an aggregate of 511,738 shares of the Company's common stock to officers, directors and employees. The grant date fair value of these options was \$4,349,258 using Black-Scholes option valuation models with the following assumptions: grant date stock price \$5.3 to \$13.2, volatility 88.04% to 89.62%, expected life 6.0 years, and risk-free rate of 1.86% to 2.29%. The Company is expensing these options on a straight-line basis over the requisite service period.

During the three months ended June 30, 2016, the Company issued options under the 2013 Plan and 2014 Plan of an aggregate of 183,000 shares of the Company's common stock to officers, directors and employees. The grant date fair value of these options was \$2,499,760 using Black-Scholes option valuation models with the following assumptions: grant date stock price \$14.24 to \$20.29, volatility 89.86% to 90.03%, expected life 6.0 years, and risk-free rate of 1.32% to 1.4%. The Company is expensing these options on a straight-line basis over the requisite service period.

During the six months ended June 30, 2016, the Company issued options under the 2013 Plan and 2014 Plan of an aggregate of 233,743 shares of the Company's common stock to officers, directors and employees. The grant date fair value of these options was \$3,042,661 using Black-Scholes option valuation models with the following assumptions: grant date stock price \$14.14 to \$40.00, volatility 89.66% to 90.03%, expected life 6.0 years, and risk-free rate of 1.31% to 1.65%. 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 June 30, 2017 and December 31, 2016 and for the six months ended June 30, 2017:

	Number of Options	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at December 31, 2016	1,607,815	\$12.59	7.3	\$6,355,072
Grants	511,738			
Forfeitures	(128,255)			
Exercises	(33,000)			
Outstanding at June 30, 2017	1,958,298	\$11.72	7.5	\$3,069,295
Vested and exercisable at June 30, 2017	1,193,300	\$9.80	6.6	\$2,960,698

Exercise Price	Number of Options	
	Outstanding	Exercisable
\$3.00 - \$4.95	185,547	185,547
\$5.00 - \$9.19	589,804	531,856
\$12.91+	1,182,947	475,897
	1,958,298	1,193,300

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 six months ended June 30, 2017 and 2016 was \$73,779 and \$175,399.



## NOTE 14 – NET 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		For the Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Net loss	\$(6,203,518)	\$(7,197,282)	\$(12,365,511)	\$(11,407,395)
Weighted average shares of common stock	14,298,973	13,737,722	14,211,888	12,810,894
Dilutive effect of stock options	-	-	-	-
Restricted stock vested not issued	-	-	-	-
Common stock and common stock equivalents	14,298,973	13,737,722	14,211,888	12,810,894
Net loss per basic share	\$(0.43)	\$(0.52)	\$(0.87)	\$(0.89)
Net loss per diluted share	\$(0.43)	\$(0.52)	\$(0.87)	\$(0.89)

For the three and six months ended June 30, 2017 and 2016, the effect of conversion and exercise of the Company's outstanding options are excluded from the calculations of dilutive net income (loss) per share as their effects would have been anti-dilutive since the Company had generated loss for the three and six months ended June 30, 2017 and 2016.

## NOTE 15 – 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 June 30, 2017, 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.

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 June 30, 2017, the Company had net operating loss carryforwards of \$14.1 million for U.S. federal purposes, \$13.7 million for U.S. state purposes, and \$10.1 million for Chinese income tax purposes, such losses will begin to expire in 2034, 2034, and 2022 for U.S. federal, U.S. state and Chinese income tax purposes, respectively. Deferred income tax expense is a result of recognizing tax benefit of current period loss due to other comprehensive income recorded this quarter. The Company's effective tax rate differs from statutory rates of 35% for U.S. federal income tax purposes, 15% to 25% for Chinese income tax purpose 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.

Pursuant to the Corporate Income Tax Law of the PRC, all of the Company's PRC subsidiaries are liable to PRC Corporate Income Taxes ("CIT") at a rate of 25% except for Cellular Biomedicine Group Ltd. (Shanghai) ("CBMG Shanghai"). According to Guoshuihan 2009 No. 203, if an entity is certified as an "advanced and new technology enterprise", it is entitled to a preferential income tax rate of 15%. CBMG Shanghai obtained the certificate of "advanced and new technology enterprise" dated October 30, 2015 with an effective period of three years and the provision for PRC corporate income tax for CBMG Shanghai is calculated by applying the income tax rate of 15% from calendar year 2015.



NOTE 16 – SEGMENT INFORMATION

The Company is engaged in the development of new treatments for cancerous and degenerative diseases utilizing proprietary cell-based technologies, which have been organized as one reporting segment since they have similar nature and economic characteristics. The Company's principle operating decision maker, the Chief Executive Officer, receives and reviews the result of the operation for all major cell platforms as a whole when making decisions about allocating resources and assessing performance of the Company. In accordance with FASB ASC 280-10, the Company is not required to report the segment information.



## 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 and six months ended June 30, 2017 and 2016, and should be read in conjunction with our unaudited 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 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 reflect 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

The “Company”, “CBMG”, “we”, “us”, “our” and similar terms refer to Cellular Biomedicine Group, Inc. (a Delaware corporation) as a combined entity including each of its subsidiaries and controlled companies, unless the context otherwise requires.





## Recent Developments

In January 2016, we launched a Phase I clinical trial of an off-the-shelf allogeneic haMPC AlloJoin™ therapy for KOA (the “Allogenic KOA Phase I Trial”) to evaluate the safety and efficacy of AlloJoin™, an off-the-shelf allogeneic adipose derived progenitor cell (haMPC) therapy for the treatment of KOA.

On March 23, 2016, the Company filed a Form S-3 Registration Statement (the “S-3 Registration Statement”) with the SEC, which was declared effective on June 17, 2016. The S-3 Registration Statement contains three prospectuses:

**Offering Prospectus.** A base prospectus which covers the offering, issuance and sale by us of up to \$150,000,000 of our common stock, preferred stock, debt securities, warrants, rights and/or units;

**Resale Prospectus.** A prospectus to be used for the resale by the selling stockholders of up to 3,824,395 shares of the Common Stock; and

**Sales Agreement Prospectus.** A sales agreement prospectus covering the offering, issuance and sale by the registrant of up to a maximum aggregate offering price of \$50,000,000 of the Common Stock that may be issued and sold under a sales agreement with Cantor Fitzgerald & Co.

On August 5, 2016 we completed patient treatment for the Allogenic KOA Phase I Trial. And on December 9, 2016 we announced interim 3-month safety data from the Allogenic KOA Phase I Trial in China. Preliminary results from interim analysis have demonstrated a safety and tolerability profile of AlloJoin™ in the three doses tested, and no serious adverse events (SAE) have been observed. The trial is on schedule to be completed by the third quarter of 2017.

On November 29, 2016 we announced the approval and commencement of patient enrollment in China for our CARD-1 (“CAR-T Against DLBCL”) Phase I clinical trial of CD19 chimeric antigen receptor T-cell (CAR-T) therapy utilizing our optimized proprietary C-CAR011 construct for the treatment of patients with refractory Diffuse Large B-cell Lymphoma (DLBCL). The CARD-1 trial has begun enrollment with more data expected to be available in the second half of 2017.

On December 9, 2016 we announced interim 3-month safety data from our Phase I clinical trial in China for AlloJoin™ off-the-shelf allogeneic stem cell therapy for KOA. The preliminary data was presented on December 2016 at the World Stem Cell Summit in West Palm Beach, Florida. The interim analysis of the trial has preliminarily demonstrated a safety and tolerability profile of AlloJoin™ in the three doses tested, and adverse events (AE) are similar to that of our prior autologous trials. No serious adverse events (SAE) have been observed. The trial is on schedule to be completed by the third quarter of 2017.

On January 3, 2017, we announced the signing of a ten-year lease of a 113,038 square feet building located in the “Pharma Valley” in Shanghai Zhangjiang High-Tech Park. The new facility designed and built to GMP standards will consist of 40,000 square feet dedicated to advanced cell manufacturing. We plan to invest an aggregate of approximately \$32 million into Zhangjiang facility, of which \$6.5 million will be spent on to bring the facility into compliance with current GMP standards and around 25 million will be spent on lease of this real estate. By the end of 2017, the Company anticipates that the new Zhangjiang facility, an expanded Wuxi, and Beijing GMP standards facilities combined will have 70,000 square feet, and the Company expects that it will be capable of supporting simultaneous clinical trials for five different CAR-T and stem cell products, or the ability to treat approximately 10,000 cancer patients and 10,000 stem cell patients per year. With this capacity, we plan to boost our headcount on researchers and technicians for additional 50 personnel by the end of 2017.

On January 9, 2017, we announced the commencement of patient enrollment in China for its CALL-1 (“CAR-T against Acute Lymphoblastic Leukemia”) Phase I clinical trial of CD19 chimeric antigen receptor T-cell (CAR-T) therapy utilizing its optimized proprietary C-CAR011 construct for the treatment of patients with relapsed or refractory (r/r) CD19+ B-cell Acute Lymphoblastic Leukemia (ALL). The CALL-1 trial has begun enrollment with more data expected to be available at the end of 2017. Depending on the Phase I CALL-1 results, CBMG expects to initiate a larger Phase II clinical trial as soon as practicable.

On February 27, 2017 we announced the Company received a \$2.29 million grant from California Institute of Regenerative Medicine (CIRM) to fund our off-the-shelf AlloJoin™ Allogeneic Stem Cell Therapy for Knee Osteoarthritis (KOA) in the U.S.. The grant will allow the company to perform pre-clinical studies at Children’s Hospital Los Angeles (CHLA) and to prepare AlloJoin™ for a U.S. Phase I clinical trial with Dr. C. Thomas Vangness, Jr., as the principal investigator and the Keck School of Medicine of USC as a trial site. On May 4, 2017, the Company received \$1.2 million from the CIRM grant, the first of four disbursement totaling \$2.29 million to fund our off-the-shelf AlloJoin™ Allogeneic Stem Cell Therapy for Knee Osteoarthritis (KOA) in the U.S.

On March 30, 2017 we announced the completion of its newly expanded 30,000 square foot facility in Huishan High Tech Park in Wuxi, China. 20,000 square feet of the Wuxi GMP facility will be dedicated to advanced stem cell culturing, centralized plasmid and viral vector production, cell banking and development of reagents.

On April 10, 2017, we announced a strategic research collaboration to co-develop certain high-quality industrial control processes in Chimeric Antigen Receptor T-cell (CAR-T) and stem cell manufacturing with GE Healthcare Life Science. In connection with the collaboration, a joint laboratory within CBMG’s new Shanghai Zhangjiang facility designed and built to GMP standards will be established and dedicated to the joint research and development of a functionally integrated and automated immunotherapy cell manufacturing system.

On May 15, 2017, we announced the addition of a new independent Phase I clinical trial of the Company’s ongoing CARD-1 study in patients with chemorefractory and aggressive DLBCL. The Company and Shanghai Tongji Hospital (Tongji) are conducting a single arm, non-randomized study to evaluate the safety and efficacy of C-CAR011 (Anti-CD19 single-chain variable fragment (scFv) (41BB-CD3f)) therapy in relapsed or refractory B cell Non-Hodgkin Lymphoma (NHL). The trial will enroll 15 patients comprised of DLBCL, Primary Mediastinal Large B-Cell Lymphoma (PMBCL) and Follicular Lymphoma (FL).



On June 1, 2017, we announced our Board of Directors has approved a new stock repurchase program granting the company authority to repurchase up to \$10 million in common shares (the “2017 Stock Repurchase Program”) through open market purchases pursuant to a plan adopted in accordance with Rule 10b5-1 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) and in accordance with Rule 10b-18 of the Exchange Act. The Company plans to repurchase shares of its common stock in the open market in accordance with all applicable securities laws and regulations. During the three months ended June 30, 2017, the Company repurchased 170,169 shares of the Company’s common stock with the total cost of \$1,357,931.

On June 20, 2017, we announced the establishment of an External Advisory Board and the appointment of Michael A. Caligiuri, MD, as Chair of the External Advisory Board to bring together experts from diverse disciplines to provide knowledge and insight to help CBMG fulfill its mission and build a network for development opportunities.

On June 26, 2017, we announced the appointment of Dr. Xia Meng as Chief Operating Officer for the Company.

In the next 12 months, we aim to accomplish the following, though there can be no assurances that we will be able to accomplish any of these goals:

Confirm the safety and tolerability profile in an investigator sponsored phase I trial of C-CAR011 in China in refractory aggressive DLBCL and to initiate a larger Phase II clinical trial as soon as practicable.

Confirm the safety and tolerability profile in an investigator sponsored phase I trial of C-CAR011 in relapsed and refractory (r/r) CD19+ B-cell Acute Lymphoblastic Leukemia (ALL) in China, and to prepare for a follow up multicenter phase IIb trial.

Submit to the CFDA an IND package for C-CAR011 in treating patients with CD19+ B-cell malignancies.

Initiate an investigator sponsored phase I trial of CBM-CD20 in treating B-cell Chronic Lymphocytic Leukemia (CLL) patients in China;

Seek opportunities to file new CAR-T and other patents in China and potentially the rest of the world;

Continue to seek advanced technologies and partnerships to bolster our position in the CAR-T market in China;

Bolster R&D resources to fortify our intellectual properties portfolio and scientific development. Continue to develop a competitive Immuno-oncology pipeline for CBMG;

Complete the Allogeneic KOA Phase I Trial in China;

Complete Chemistry, Manufacturing and Controls (CMC), non-clinical and preclinical study data package to prepare for Allogeneic KOA IND filing in the United States;

Initiate clinical study to support the Biological license application (BLA) for Allogeneic KOA study in the United States;

Bolster R&D resources to fortify our intellectual properties portfolio and scientific development;

Improve liquidity and fortify our balance sheet by courting institutional investors;

Evaluate new regenerative medicine technology platform for other indications;

Explore new CAR-T opportunities for international collaboration and /or partnership;

Expand our cell manufacturing capacity and capabilities;

Evaluate the feasibility of sponsoring a multi-site Phase I/II NSCLC clinical study to support the Biological license application (BLA) for the U.S. and China CD40L GVAX trial in combination with anti-PD1; and

Implement our GE Joint Technology Laboratory to develop control processes for the manufacture of CAR-T and Stem Cell Therapies.

#### Corporate History

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

#### BIOPHARMACEUTICAL 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 facility designed and built to GMP standards in Wuxi, and in 2012 we established a U.S. Food and Drug Administration (“FDA”) GMP standard protocol-compliant manufacturing facility in Shanghai. In October 2015, we opened a facility designed and built to GMP standards in Beijing. Our focus has been to serve 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, with the recent build-up of multiple cancer therapeutic technologies, we have prioritized our clinical efforts on CAR-T, technologies, Vaccine, Tcm and TCR clonality technologies, and are not actively pursuing the fragmented Tcm technical services opportunities. We are integrating CBMG's state-of-the art infrastructure and clinical platform with the technologies platform 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 regulatory approval. On November 29, 2016, we announced the approval and commencement of patient enrollment in China for its CARD-1 ("CAR-T Against DLBCL") Phase I clinical trial utilizing its optimized proprietary C-CAR011 construct of CD19 chimeric antigen receptor T-cell (CAR-T) therapy for the treatment of patients with refractory Diffuse Large B-cell Lymphoma (DLBCL). The CARD-1 trial has begun enrollment with final data expected to be available in the second half of 2017. On January 9, 2017 we announced the approval and commencement of patient enrollment in China for its CALL-1 ("CAR-T against Acute Lymphoblastic Leukemia") Phase I clinical trial utilizing its optimized proprietary C-CAR011 construct of CD19 chimeric antigen receptor T-cell ("CAR-T") therapy for the treatment of patients with relapsed or refractory (r/r) CD19+ B-cell Acute Lymphoblastic Leukemia ("ALL"). The CALL-1 trial has begun enrollment with final data expected to be available at the end of 2017. Depending on the Phase I CARD-1 and CALL-1 results, we expect to initiate larger Phase II clinical trials as soon as practicable.

KOA. In 2013, we completed a Phase I/IIa clinical study, 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 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 and released positive Phase IIb 48 week follow-up data in January 2016, which shows the primary and secondary endpoints of ReJoin® therapy group having all improved significantly compared to their baseline, which has confirmed some of the Company's Phase I/IIa results. 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;

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).

In January 2016, we launched the Allogeneic KOA Phase I Trial in China to evaluate the safety and efficacy of AlloJoin™, an off-the shelf allogeneic adipose derived progenitor cell (haMPC) therapy for the treatment of KOA. On August 5, 2016 we completed patient treatment for the Allogeneic KOA Phase I trial, and on December 9, 2016 we announced interim 3-month safety data from the Allogeneic KOA Phase I Trial in China. The interim analysis of the trial has preliminarily demonstrated a safety and tolerability profile of AlloJoin™ in the three doses tested, and no

serious adverse events (SAE) have been observed. The trial is on schedule to be completed by the third quarter of 2017.

In January 2015, we initiated patient recruitment in a phase II clinical study, in China, of ReJoin (human adipose derived mesenchymal progenitor cell or “haMPC”) in Cartilage Damaged (“CD”) patients resulting from osteoarthritis (“OA”) or sports injury, in further support of KOA indication. The study is based on the same technology that has shown significant efficacy in the treatment of Knee Osteoarthritis (“KOA”), but requires two arthroscopic examinations and the use of magnetic resonance imaging (“MRI”) to further demonstrate the regenerative efficacy of ReJoin. Upon further review of the protocol and the difficulty of getting patients back for a second arthroscopic examination, we determined to terminate the study.

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. In addition, we plan to assess and initiate cancer clinical trials leading to commercialization using safe and most effective therapy or combination therapies. The quality management systems of CBMG Shanghai and CBMG Wuxi were issued a Certificate of ISO-9001:2008 by SGS /ANAB (ANSI-ASQ National Accreditation Board). Our facility in Shanghai was issued a Certificate of Compliance by ENV Services, Inc., and ISO Inspection Service Provider that (i) its rooms 1-7, 10 are certified to ISO Class 7 per ISO-14644 in accordance with cGMP; (ii) its biological safety cabinets are certified per NSF/ANSI 49 and to ISO Class 5; and (iii) its instrumentation calibration has been certified to perform in accordance with ANS/NCSL Z-540-1 and document in accordance with 10CFR21. Our facility in Shanghai was issued a Testing Report by Shanghai Food and Drug Packaging Material Control Center concluding that some testing items of the cleanrooms are in compliance with the Good Manufacturing Practice for Drugs (2010 Revision) of China. The cleanrooms in Beijing are certified to meet the standard of CNAS L1669; and Wuxi has been certified to meet the CNAS L0221 standard.



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, 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 immuno-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, 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, Kite's Pharma's CART product has achieved 41% overall response rate and a complete response rate of 36% of patients in response and 36 percent in complete response at month 6 in its pivotal CAR-T trial in patients with aggressive non-hodgkin lymphoma.

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 these T cells reach the dose requirement (in 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. 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.

The traditional cancer treatment includes surgery, chemotherapy, and radiation therapy. In the last decade, we witnessed a boom in targeted therapies including monoclonal antibody and small molecule therapies, such as Iressa and Tarciva that targets EGFR activating mutations in the NSCLC, Herceptin that treats breast cancer patients with HER2 overexpression, Crizotinib that targets NSCLC patients with positive ALK fusion gene.

So far, chimeric antigen receptor T cell therapy ("CAR-T") such as CD19 CAR-T, have been tested in several hematological indications on patients that are refractory/relapsing to chemotherapy, and many of them have relapsed after stem cell transplantation. All of these patients had very limited treatment option prior to CAR-T therapy. CAR-T has shown positive clinical efficacy in many of these patients. Some of them have lived for years post CAR-T treatment.

On July 2016, Juno Therapeutics, Inc. reported the death of patients enrolled in the U.S. Phase II clinical trial of JCAR015 for the treatment of relapsed or refractory B cell acute lymphoblastic leukemia (B-ALL). The US FDA put the trial on hold and lifted the hold within a week after Juno provided satisfactory explanation and solution. Juno believes that the patient deaths were caused by the use of Fludarabine preconditioning and they will use only cyclophosphamide pre-conditioning in the future enrollment. The trial was halted in November of 2016 after two more deaths occurred after the trial resumed. The Company believes that its product and study are distinguishable from Juno Therapeutics and plans to continue to monitor any toxicities associated with the study.

#### 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 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 Centers for Disease Control and Prevention. Prevalence of doctor-diagnosed arthritis and arthritis-attributable activity limitation United States. 2010-2012, Osteoarthritis (OA) is a chronic disease that is characterized by degeneration of the articular cartilage, hyperosteoegeny, and ultimately, joint destruction that can affect all of the joints. According to Dillon CF, Rasch EK, Gu Q et al. Prevalence of knee osteoarthritis in the United States: Arthritis Data from the Third National Health and Nutrition Examination Survey 1991-94. *J Rheumatol.* 2006, the incidence of OA is 50% among people over age 60 and 90% among people over age 65. KOA accounts for the majority of total OA conditions and in adults, OA is the second leading cause of work disability and the disability incidence is high (53%). The costs of OA management have grown exponentially over recent decades, accounting for up to 1% to 2.5% of the gross national product of countries with aging populations, including the U.S., Canada, the UK, France, and Australia. According to the American Academy of Orthopedic Surgeons (AAOS), the only pharmacologic therapies recommended for OA symptom management are non-steroidal anti-inflammatory drugs (NSAIDs) and tramadol (for patients with symptomatic osteoarthritis). Moreover, there is no approved disease modification therapy for OA in the world. Disease progression is a leading cause of hospitalization and ultimately requires joint replacement surgery. In 2009, the U.S. spent over \$42 billion on replacement surgery for hip and knee joints alone. International regulatory guidelines on clinical investigation of medicinal products used in the treatment of OA were updated in 2015, and clinical benefits (or trial outcomes) of a disease modification therapy for KOA has been well defined and recommended. Medicinal products used in the treatment of osteoarthritis need to provide both a symptom relief effect for at least 6 months and a structure modification effect to slow cartilage degradation by at least 12 months. Symptom relief is generally measured by a composite questionnaire Western Ontario and McMaster Universities Osteoarthritis Index (WOMAC) score, and structure modification is measured by MRI, or radiographic image as accepted by international communities. The Company uses the WOMAC as primary end point to demonstrate symptom relief, and MRI to assess structure and regeneration benefits as a secondary endpoint.

According to an October 2010 article from the Foundation for the National Institutes of Health, there are approximately 27 million Americans with Osteoarthritis (OA), and symptomatic Knee Osteoarthritis (KOA) occurs in 13% of persons aged 60 and older. The *International Journal of Rheumatic Diseases*, 2011 reports that approximately 57 million people in China suffer from KOA. Currently no treatment exists that can effectively preserve knee joint cartilage or slow the progression of KOA. Current common drug-based methods of management, including anti-inflammatory medications (NSAIDs), only relieve symptoms and carry the risk of side effects. Patients with KOA suffer from compromised mobility, leading to sedentary lifestyles; doubling the risk of cardiovascular diseases, diabetes, and obesity; and increasing the risk of all causes of mortality, colon cancer, high blood pressure, osteoporosis, lipid disorders, depression and anxiety. According to the *Epidemiology of Rheumatic Disease* (Silman AJ, Hochberg MC. Oxford Univ. Press, 1993:257), 53% of patients with KOA will eventually become disabled.



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, Novartis and Kite Pharma, Inc have been very positive. Novartis CAR-T technology has made breakthroughs in treating B cell leukemia. Both Kite and Novartis are on track to submit their respective CAR-T registration trial data to the US FDA for BLA in the near future.

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 stem cell 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 biopharmaceutical 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, we expect our biopharmaceutical business to generate revenues primarily through the development of therapies for the treatment of KOA within the next three to four years.

Presently we have two KOA cell therapy clinical studies in China, a completed Phase IIb autologous study and an on-going Phase I allogeneic study. If and when either therapy obtains regulatory approval in the PRC, we will be able to market and offer the therapy for clinical use. Our focus is on the latest translational stages of product development, principally from the pre-clinical 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 also initiated multiple dose preclinical studies in Chronic Obstructive Pulmonary Disease ("COPD") animal model. At this time we have maintained our focus on the knee osteoarthritis trials and have not prioritized the COPD preclinical study. 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 and are exploring the feasibility of a U.S. allogeneic KOA clinical study with the FDA.

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 therapy candidate 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 biopharmaceutical business to generate revenues primarily from the development of therapies for the treatment of KOA within the next four to six 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 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 protocol of allogeneic haMPC therapy for KOA has been approved by Shanghai Renji Hospital's Institutional Review Board for clinical studies. Once the studies are completed, the clinical data will be analyzed by qualified third party statisticians and reports will be published.

We operate our manufacturing facilities under good manufacturing practice ("GMP") conditions in the ISO accredited laboratories standard. We employ an institutionalized and proprietary process and quality management system to optimize reproducibility and to hone our efficiency. Three facilities designed and built to GMP in Beijing, Shanghai and Wuxi, China meet international standards. 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 rigorous cleanroom certification. Our facility in Shanghai was issued a Certificate of Compliance by ENV Services, Inc., and ISO Inspection Service Provider that (i) its rooms 1-7, 10 are certified to ISO Class 7 per ISO-14644 in accordance with cGMP; (ii) its biological safety cabinets are certified per NSF/ANSI 49 and to ISO Class 5; and (iii) its instrumentation calibration has been certified to perform in accordance with ANS/NCSL Z-540-1 and document in accordance with 10CFR21. The cleanrooms in Beijing are certified to meet the standard of CNAS L1669; and Wuxi has been certified to meet the CNAS L0221 standard. With our integrated Plasmid, Viral Vectors, and CAR-T cells Chemistry, Manufacturing, and Controls process as well as planned capacity expansion, we are highly distinguishable with other companies in the cellular medicine space.

In total, our facilities operating under cGMP have over 47,300 sq. ft. of space with the capacity for 19 independent cell production lines. We are expanding our facilities designed and built to GMP standards to approximately 70,000 sq. ft. of space and aim to be able to treat approximately 10,000 cancer patients and 10,000 patients per year by the end of 2017.

Most importantly, our most experienced team members have more than 20 years of relevant experience in China, European Union, 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 are currently pursuing two primary therapies for the treatment of KOA: our ReJoin<sup>®</sup> therapy and our AlloJoin<sup>™</sup> therapy.

We 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<sup>™</sup> therapy to be both safe and effective.

In the second quarter 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 positive Phase IIb 48-week follow-up data in January 2016, with statistical significant evidence that ReJoin® enhanced cartilage regeneration, which concluded the planned phase IIb trial.

In January 2016, we launched the Allogeneic KOA Phase I Trial in China to evaluate the safety and efficacy of AlloJoin™, an off-the shelf allogeneic adipose derived progenitor cell (haMPC) therapy for the treatment of KOA. On August 5, 2016 we completed patient treatment for the Allogeneic KOA Phase I trial. On August 5, 2016 we completed patient treatment for the Allogeneic KOA Phase I Trial, and on December 9, 2016, we announced interim 3-month safety data from the Allogeneic KOA Phase I Trial in China. The interim analysis of the trial has preliminarily demonstrated a safety and tolerability profile of AlloJoin™ in the three doses tested, and no serious adverse events (SAE) have been observed. The trial is on schedule to be completed by the third quarter of 2017.

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.

#### Immuno-oncology (I/o)

We continue to fortify our cancer breakthrough technology platform with I/o and vaccine technology.

Our CAR-T platform is built on well-studied lenti-viral vector and second-generation CAR design, which is used by most of the current trials and studies. We rigorously select the patient population for each indication to allow the optimal path forward for regulatory approval. We also fully integrate the state of art translational medicine effort into each clinical study to aid in dose selection, to confirm the mechanism of action and proof of concept, and to identify the optimal targeting patient population whenever appropriate. We plan to continue to grow our translational medicine team and engage key opinion leaders to meet the demand.

Because there are many differences between hematological and solid tumors, drug penetration or infiltration into solid tumors sites is more challenging than hematological cancer. Antibody dependent cell-mediated (“ADCC”) toxicity works much better in hematological cancers. Hematological cancers usually carry fewest mutations among all cancers and are usually less molecularly heterogeneous than that of solid tumors. As such, routinely hematological cancers respond better to therapeutic interventions, and there are more complete, as well as partial responses. And the duration of response is usually longer.

Solid tumors pose more challenges than hematological cancers. The patients are more heterogeneous, making it difficult to have one drug to work effectively in the majority of the patients in any cancer indication. The duration of response is most likely shorter and patients are likely to relapse even after initial positive clinical response. We believe that CAR-T therapy can successfully treat hematopoietic cancers because the therapy can deplete all B cells including normal and cancer cells in leukemia and lymphoma. When the stem cells are not targeted these stem cells can regenerate normal B and T cells. In contrast, effective tumor specific antigens found to be less to target in solid tumors. When the drugs kill tumor cells, they also kill the normal cells to a certain degree, leading to different degrees of toxicity. We will continue to make an effort to develop CAR-T or other cell based therapies to target solid tumors.

### 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, through the acquisition of AG and the technologies and pre-clinical and clinical data of University of the South Florida and PLAGH, 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, CAR-T and Tcm technologies. Immune cell therapies have not been codified by any of the Chinese regulatory agencies. On December 16, 2016, the CFDA issued solicited feedback on its draft “Technical Guidelines for Research and Evaluation of Cellular Products”, signaling near term clarification and codification/of the cell therapy regulation. We believe this will create substantial barrier-to-entry for newcomers in China. However, it remains unclear if any of our clinical trials will qualify for U.S.FDA-liked Fast Track designation as maintenance therapy in subjects with advanced cancer who have limited options following surgery and front-line platinum/taxane chemotherapy to improve their progression-free survival. 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. In addition, encouraged by the recent CIRM grant of \$2.29 million for our preclinical trial to replicate and validate the manufacturing process and control system at the cGMP facility located at Children’s Hospital Los Angeles to support the filing of an IND with the FDA, we have begun to review the feasibility of performing a synergistic U.S. KOA clinical trial.

### Competition

The biotechnology and pharmaceutical industries, including the gene therapy field, are characterized by rapidly advancing technologies, intense competition and a strong emphasis on intellectual property. We face substantial competition from many different sources, including large biopharmaceutical companies, midsize/smaller public and privately-held biotechnology firms, academic research institutions, governmental agencies, and public and private

research institutions

We compete with companies in the space of immunotherapy, as well as companies developing novel targeted therapies for cancer. We anticipate substantial direct competition from other organizations developing advanced T cell therapies. In particular, we expect to compete with genetically engineering T cell therapies that are being pursued by multiple companies, including Kite, Novartis, Juno Therapeutics, Amgen, as well as a number of China-based companies. In particular, the Chinese JV Fosun Kite is in the process of research and development of its own versions of Kite C-19 T cell therapies and the JV BeiGene Biologic has just announced their high-quality large scale manufacturing project in Guangzhou.

We also face competition in the degenerative osteoarthritis from non-immunotherapy based treatments offered by companies such as TissueGene and Mitsubishi pharma, which has completed U.S phase 2 trials and received a Special Protocol Assessment designation for Phase 3 trials scheduled to begin in the second quarter of 2017.

Many of our competitors, either alone or with their strategic partners, have substantially greater financial, technical and human resources. Accordingly, our competitors may be more successful than us in obtaining approval for treatments and achieving widespread market acceptance and may render our treatments obsolete or non-competitive. Mergers and acquisitions in the biotechnology and pharmaceutical industries may result in even more resources being concentrated among a smaller number of our competitors. These competitors also compete with us in recruiting and retaining qualified scientific and management personnel and establishing clinical study sites and patient registration for clinical studies, as well as in acquiring technologies complementary to, or necessary for, our programs. Smaller or early-stage companies may also prove to be significant competitors, particularly through collaborative arrangements with large and established companies.



## Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. On an ongoing basis, our management evaluates the estimates, including those related to revenue recognition, accounts receivable, inventory, long-lived assets, goodwill and other intangibles, investments, stock-based compensation, and income taxes. Of the accounting estimates we routinely make relating to our critical accounting policies, those estimates made in the process of: determining the valuation of accounts receivable, inventory, long-lived assets, and goodwill and other intangibles; measuring share-based compensation expense; preparing investment valuations; and establishing income tax valuation allowances and liabilities are the estimates most likely to have a material impact on our financial position and results of operations. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. However, because these estimates inherently involve judgments and uncertainties, there can be no assurance that actual results will not differ materially from those estimates.

During the three months ended June 30, 2017, we believe that there have been no significant changes to the items that we disclosed as our critical accounting policies and estimates in the “Critical Accounting Policies and Estimates” section of Item 7 - Management’s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016. In addition, we have added the accounting policies of Treasury Stock and Government Grants in our unaudited condensed consolidated financial statements for the three months ended June 30, 2017 to address the relevant transactions, as follows:

### Treasury Stock

The treasury stock are recorded and carried at their repurchase cost. The Company recorded the entire purchase price of the treasury stock as a reduction of equity. A gain and or loss will be determined when treasury stock is reissued or retired, and the original issue price and book value of the stock do not enter into the accounting. Additional paid-in capital from treasury stock is credited for gains and debited for losses when treasury stock is reissued at prices that differ from the repurchase cost.

### Government Grants

Government grants are recognized in the balance sheet initially when there is reasonable assurance that they will be received and that the enterprise will comply with the conditions attached to them. When the Company received the government grants but the conditions attached to the grants have not been fulfilled, such government grants are deferred and recorded as deferred income. The reclassification of short-term or long-term liabilities is depended on the management’s expectation of when the conditions attached to the grant can be fulfilled. Grants that compensate the Company for expenses incurred are recognized as other income in statement of income on a systematic basis in the same periods in which the expenses are incurred.



## Results of Operations

Below is a discussion of the results of our operations for the three and six months ended June 30, 2017 and 2016. 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 June 30, 2017 to Three Months Ended June 30, 2016

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 June 30, 2017	Three Months Ended June 30, 2016
Net sales and revenue	\$62,914	\$71,599
Operating expenses:		
Cost of sales	38,097	323,587
General and administrative	3,319,093	3,072,647
Selling and marketing	76,385	39,480
Research and development	3,349,509	2,972,855
Total operating expenses	6,783,084	6,408,569
Operating loss	(6,720,170)	(6,336,970)
Other income		
Interest income	40,573	18,290
Other income	476,079	7,646
Total other income	516,652	25,936
Loss before taxes	(6,203,518)	(6,311,034)
Income taxes provision	-	(886,248)
Net loss	\$(6,203,518)	\$(7,197,282)
Other comprehensive income (loss):		
Cumulative translation adjustment	292,452	(271,438)
Unrealized loss on investments, net of tax	(240,000)	(11,115,884)
Total other comprehensive income (loss):	52,452	(11,387,322)
Comprehensive loss	\$(6,151,066)	\$(18,584,604)
Net loss per share:		
Basic	\$(0.43)	\$(0.52)
Diluted	\$(0.43)	\$(0.52)

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Weighted average common shares outstanding:

Basic	14,298,973	13,737,722
Diluted	14,298,973	13,737,722

\* These line items include the following amounts of non-cash, stock-based compensation expense for the periods indicated:

Three Months Ended June 30, 2017      Three Months Ended June 30, 2016

Cost of sales	11,777	(40,790)
General and administrative	828,528	903,781
Selling and marketing	16,079	(43,776)
Research and development	613,822	326,983
	1,470,206	1,146,198

Note:

Negative balances in above expenses mainly resulted from the true-up of forfeited options during the period.



## Results of Operations

## Net sales and revenue

## Net Revenues

	2017	2016	Change	Percent
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For the three months ended June 30,	\$62,914	\$71,599	\$(8,685)	(12)%
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All the revenue was derived from cell therapy technology service for three months period ended June 30, 2017 and 2016. The decrease in revenue is the result of prioritizing cancer therapeutic technologies and focusing our clinical efforts on developing CART technologies, Vaccine, Tcm and TCR clonality technologies. As a result of not focusing on the cell therapy technology service revenue, in the second quarter of 2016 the Company ceased its cooperation with the Jihua Hospital and several other agents, which resulted in decreased revenue in 2017.

## Cost of Sales

## Cost of Sales

	2017	2016	Change	Percent
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For the three months ended June 30,	\$38,097	\$323,587	\$(285,490)	(88)%
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The cost of sales decreased in line with the sales. The cost of sales in 2016 was mainly due to the high fixed cost of Beijing site. Since there was no revenue from the Beijing site in 2017, the cost of sales decreased significantly.

## General and Administrative Expenses

## General &amp; Administrative Expenses

	2017	2016	Change	Percent
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For the three months ended June 30,	\$3,319,093	\$3,072,647	\$246,446	8%
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Increased expenses in 2017 was primarily attributed to the following:

- o An increase in rental expenses of \$649,000, which mainly resulted from the new leased plant located in the “Pharma Valley” of Shanghai from January 1, 2017;
- o A decrease in legal, audit and other professional fees of \$220,000 as the Company S-3 and S-8 filing in first half of 2016 that led to large professional fees in 2016;

- o A decrease in salary of \$78,000; and
- o A decrease in stock-based compensation expense of \$75,000.

Selling and Marketing Expenses

Sales & Marketing Expenses

	2017	2016	Change	Percent
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For the three months ended June 30,	\$76,385	\$39,480	\$36,905	93%
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Sales and marketing expenses increased by approximately \$37,000 in the three months ended June 30, 2017 as compared to the three months ended June 30, 2016, primarily as a result of a decrease in salary of \$18,000 due to a sales manager leaving in 1st quarter 2017 and an increase in stock-based compensation expense of \$60,000 resulting from a large forfeiture of options due to a sales vice president who departed in first half 2016.



## Research and Development Expenses

## Research and Development Expenses

	2017	2016	Change	Percent
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For the three months ended June 30,	\$3,349,509	\$2,972,855	\$376,654	13%
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Research and development costs increased by approximately \$377,000 in the three months ended June 30, 2017 as compared to the three months ended June 30, 2016. The increase was primarily attributed to below facts:

- o An increase in stock-based compensation expense of \$287,000;
- o An increase in raw material consumption of \$177,000;
- o A decrease of clinical expense of \$167,000 as in 2nd quarter 2016 the Company incurred large clinical trial expenses on CAR-T projects;
- o An increase in rental expenses of \$55,000, which was mainly attributed to the launch of R&D activities at our Beijing GMP facility in the 2nd quarter of 2016; and
- o An increase in depreciation and amortization of \$50,000, which was mainly attributed to the purchase of our new equipment for immunotherapy research and development.

## Operating Loss

## Operating Loss

	2017	2016	Change	Percent
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For the three months ended June 30,	\$(6,720,170)	\$(6,336,970)	\$(383,200)	6%
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The increase in the operating loss for the three months ended June 30, 2017 as compared to the same period in 2016 is primarily due to changes in cost of sales, general and administration expenses and research and development expenses, each of which is described above.

## Total Other Income

## Other Income

	2017	2016	Change	Percent
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For the three months ended June 30, \$516,652 \$25,936 \$490,716 1892%

Other income for the three months ended June 30, 2017 was primarily interest income of \$41,000 and government subsidy income of \$512,000. Other income for the three months ended June 30, 2016 was primarily interest income of \$18,000 and foreign exchange gain of \$9,000.

Income Taxes Provision

Income Taxes Provision

2017	2016	Change	Percent
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For the three months ended June 30,	\$-	\$(886,248)	\$886,248	(100)%
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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 deferred tax assets other than the extent of the benefit from other comprehensive income. Income tax expense for three months ended June 30, 2016 mainly represents deferred income tax as a result of recognizing tax benefit of current period loss due to other comprehensive income recorded this quarter.



## Net Loss

## Net Loss

	2017	2016	Change	Percent
For the three months ended June 30,	\$(6,203,518)	\$(7,197,282)	\$993,764	(14)%

Changes in net loss are primarily attributable to changes in operations which are described above.

## Comprehensive Loss

## Comprehensive Net Loss

	2017	2016	Change	Percent
For the three months ended June 30,	\$(6,151,066)	\$(18,584,604)	\$12,433,538	(67)%

Comprehensive loss for three months ended June 30, 2017 includes unrealized net loss on investments of \$240,000 and a currency translation net gain of approximately \$292,000 combined with the changes in net income. Comprehensive net loss for three months ended June 30, 2016 includes unrealized net loss on investments of approximately \$11,116,000 and a currency translation net loss of approximately \$271,000 combined with the changes in net income. The unrealized loss on investments was primarily attributed to the valuation loss for the stock investment in Arem Pacific Corporation. The stock of Arem Pacific Corporation (ARPC) held by us are illiquid restricted shares that are very thinly traded on the OTC Markets.



## Comparison of Six Months Ended June 30, 2017 to Six Months Ended June 30, 2016

The descriptions in the results of operations below reflect our operating results as set forth in our Consolidated Statement of Operations filed herewith.

	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Net sales and revenue	\$161,339	\$560,090
Operating expenses:		
Cost of sales	75,499	826,780
General and administrative	6,504,340	5,848,572
Selling and marketing	194,269	218,234
Research and development	6,393,634	5,371,217
Impairment of investments	-	-
Total operating expenses	13,167,742	12,264,803
Operating loss	(13,006,403)	(11,704,713)
Other income		
Interest income	89,755	35,340
Other income	553,587	23,966
Total other income	643,342	59,306
Loss before taxes	(12,363,061)	(11,645,407)
Income taxes credit (provision)	(2,450)	238,012
Net loss	\$(12,365,511)	\$(11,407,395)
Other comprehensive income (loss):		
Cumulative translation adjustment	346,121	(255,365)
Unrealized gain (loss) on investments, net of tax	(240,000)	5,300,633
Total other comprehensive income:	106,121	5,045,268
Comprehensive loss	\$(12,259,390)	\$(6,362,127)
Net loss per share:		
Basic	\$(0.87)	\$(0.89)
Diluted	\$(0.87)	\$(0.89)
Weighted average common shares outstanding:		
Basic	14,211,888	12,810,894
Diluted	14,211,888	12,810,894

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\* These line items include the following amounts of non-cash, stock-based compensation expense for the periods indicated:

	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Cost of sales	22,916	(3,751)
General and administrative	1,696,113	1,353,562
Selling and marketing	13,697	3,985
Research and development	1,169,387	1,058,465
	2,902,113	2,412,261

Note:  
Negative  
balance  
in above  
expenses  
mainly  
resulted  
from the  
true-up  
of  
forfeited  
options  
during  
the  
period.



## Results of Operations

## Net sales and revenue

## Net Revenues

	2017	2016	Change	Percent
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For the six months ended June 30,	\$161,339	\$560,090	\$(398,751)	(71)%
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All the revenue was derived from cell therapy technology service for the six months ended June 30, 2017 and 2016. The decrease in revenue is the result of prioritizing cancer therapeutic technologies, and focusing our clinical efforts on developing CAR-T technologies, Vaccine, Tcm and TCR clonality technologies. Such decrease in revenue was also attributable to the fact that the Company ceased its cooperation with the Jihua Hospital and several agents and were not actively pursuing the fragmented technical services opportunities in the second quarter of 2016.

## Cost of Sales

## Cost of Sales

	2017	2016	Change	Percent
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For the six months ended June 30,	\$75,499	\$826,780	\$(751,281)	(91)%
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The cost of sales decreased in line with the sales. The cost of sales in 2016 was mainly due to the high fixed cost of Beijing site. Since there was no revenue from the Beijing site in 2017, the cost of sales decreased significantly.

## General and Administrative Expenses

## General &amp; Administrative Expenses

	2017	2016	Change	Percent
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For the six months ended June 30,	\$6,504,340	\$5,848,572	\$655,768	11%
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Increased expenses in 2017 was primarily attributed to below facts:

- o An increase in rental expenses of \$1,245,000, which mainly resulted from the new leased plant located in the “Pharma Valley” of Shanghai from January 1, 2017;
- o An increase in stock-based compensation expense of \$343,000, as compared to a lower stock-based compensation expense in 2016 resulting from forfeiture of the options due to Wei Cao who resigned as the CEO of the Company in

February 2016 and as director in May 2016;

o

A decrease in legal, audit and other professional fees of \$449,000 as the Company S-3 and S-8 filing in first half of 2016 that led to large professional fees in 2016;

o

A decrease in salary of \$288,000; and

o

A decrease in insurance fee of \$102,000, which mainly resulted from the decrease in premium for director and officer liability and Company reimbursement insurance.

#### Selling and Marketing Expenses

##### Sales & Marketing Expenses

	2017	2016	Change	Percent
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For the six months ended June 30,	\$194,269	\$218,234	\$(23,965)	(11)%
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The selling and marketing expenses decrease was mainly attributed to the decline in travelling expenses of \$17,000 and entertainment expenses of \$16,000 and less marketing activities incurred in first half 2017.



Research and Development Expenses

Research and Development Expenses

	2017	2016	Change	Percent
For the six months ended June 30,	\$6,393,634	\$5,371,217	\$1,022,417	19%

Research and development costs increased by approximately \$1,022,000 in the six months ended June 30, 2017 as compared to the six months ended June 30, 2016. The increase was primarily attributed to the facts below:

- o An increase in payroll expenses of \$150,000 in line with the increase of our immunotherapy research and development team. Total headcount of our R&D team increased from 74 as of June 30, 2016 to 78 as of June 30, 2017;
- o An increase in raw material consumption of \$487,000;
- o An increase in stock-based compensation expense of \$111,000;
- o An increase in rental expenses of \$193,000, which was mainly attributed to the launching of R&D activities at our Beijing GMP facility in the 2nd quarter of 2016;
- o An increase in depreciation and amortization of \$181,000, which was mainly attributed to the purchase of our new equipment for immunotherapy research and development; and
- o A decrease in clinical trial expenditure of \$160,000.

Operating Loss

Operating Loss

	2017	2016	Change	Percent
For the six months ended June 30,	\$(13,006,403)	\$(11,704,713)	\$(1,301,690)	11%

The increase in the operating loss for the six months ended June 30, 2017 as compared to the same period in 2016 is primarily due to changes in revenues, cost of sales, general and administrative expenses and research and development expenses, each of which is described above.

Total Other Income

Other Income

	2017	2016	Change	Percent
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For the six months ended June 30,	\$643,342	\$59,306	\$584,036	985%
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Other income for the six months ended June 30, 2017 was primarily interest income of \$90,000 and government subsidy income of \$592,000. Other income for the six months ended June 30, 2016 was primarily interest income of \$35,000 and foreign exchange gain of \$24,000.

Income Taxes Credit (Provision)

Income Taxes Provision

	2017	2016	Change	Percent
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For the six months ended June 30,	\$(2,450)	\$238,012	\$(240,462)	(101)%
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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 deferred tax assets other than the extent of the benefit from other comprehensive income. Income tax expense for six months ended June 30, 2017 all represent US state tax. Income tax expense for six months ended June 30, 2016 mainly represents deferred income tax as a result of recognizing tax benefit of current period loss due to other comprehensive income recorded.



## Net Loss

## Net Loss

	2017	2016	Change	Percent
For the six months ended June 30,	\$(12,365,511)	\$(11,407,395)	\$(958,116)	8%

Changes in net loss are primarily attributable to changes in operations of our biomedicine segment which are described above.

## Comprehensive Loss

## Comprehensive Net Loss

	2017	2016	Change	Percent
For the six months ended June 30,	\$(12,259,390)	\$(6,362,127)	\$(5,897,263)	93%

Comprehensive net loss for six months ended June 30, 2017 includes unrealized net loss on investments of approximately \$240,000 and a currency translation net gain of approximately \$346,000 combined with the changes in net income. Comprehensive net loss for six months ended June 30, 2016 includes unrealized net gain on investments of approximately \$5,301,000 and a currency translation net loss of approximately \$255,000 combined with the changes in net income. The unrealized gain on investments was primarily attributed to the valuation gain for the stock investment in Arem Pacific Corporation. The stock of Arem Pacific Corporation (ARPC) held by us are illiquid restricted shares. ARPC is a very thinly traded OTC company.

## Liquidity and Capital Resources

We had working capital of \$24,879,380 as of June 30, 2017 compared to \$38,328,048 as of December 31, 2016. Our cash position decreased to \$27,298,445 at June 30, 2017 compared to \$39,252,432 at December 31, 2016 for the cash used in operating and investment activities.

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

Net cash used in operating activities was approximately \$7,778,000 and \$8,752,000 for the six months ended June 30, 2017 and 2016, respectively. The following table reconciles net loss to net cash used in operating activities:

For the six months ended June 30,	2017	2016	Change
Net loss	\$(12,365,511)	\$(11,407,395)	\$(958,116)
Non cash transactions	4,271,232	3,878,099	393,133
Changes in operating assets, net	316,228	(1,223,176)	1,539,404

Net cash used in operating activities \$(7,778,051) \$(8,752,472) \$974,421

The 2017 change in non-cash transaction was primarily due to the increase in share based compensation of \$490,000 compared with same period in 2016.



Net cash used in investing activities was approximately \$3,037,000 and \$1,162,000 in the six months ended June 30, 2017 and 2016, respectively. These amounts were primarily the result of construction of Wuxi and Zhangjiang GMP and purchases of fixed assets.

Net cash (used in) provided by financing activities was approximately \$(1,284,000) and \$42,613,000 in the six months ended June 30, 2017 and 2016, respectively. Net cash used in the financing activities in 2017 was mainly attributed to repurchase of the Company's common stock and net cash provided by financing activities were mainly attributable to the proceeds received from exercise of options and the issuance of common stock.

#### Liquidity and Capital Requirements Outlook

Excluding any potential sponsorship of a CD40LGVAX Trial in the U.S. and other regions outside of China CD40LGVAX Trial, we anticipate that the Company will require approximately \$30 million in cash to operate as planned in the coming 12 months. Of this amount, approximately \$20.5 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. Approximately \$7.8 million will be used as capital expenditure in machinery, equipment and facilities to expand our immune cell therapy business and CAR-T research and development, although we may revise these plans depending on the changing circumstances of our biopharmaceutical business. Approximately \$1.6 million will be used to repurchase the Company's common stock.

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 stocks held, Arem Pacific Corporation, has an S-1 prospectus which relates to the resale of up to 13,694,711 shares of common stock, inclusive of the 8,000,000 shares held by the Company. However, the shares offered by this filing may only be sold by the selling stockholders at \$0.05 per share until the shares are quoted on the OTCQB® tier of OTC Markets or an exchange. Another one of our stocks held, Wonder has delisted. We do not know whether we can liquidate our 8,000,000 shares of Arem Pacific stock or the 2,057,131 shares of Wonder stock or any of our other portfolio securities, or if liquidated, whether the realized amount will be meaningful at all. As a result, we have written down above stocks to their fair value.

On April 15, 2016, the Company completed the second and final closing of a financing transaction with Wuhan Dangdai Science & Technology Industries Group Inc., pursuant to which the Company sold to the Investor 2,006,842 shares of the Company's common stock, par value \$0.001 per share, for approximately \$38,130,000 in gross proceeds. As previously disclosed in a Current Report on Form 8-K filed on February 10, 2016, the Company conducted the initial closing of the financing on February 4, 2016. The aggregate gross proceeds from both closings in the financing totaled approximately \$43,130,000. In the aggregate, 2,270,000 shares of Common Stock were issued in the financing. On March 22, 2016, the Company filed a registration statement on Form S-3 to offer and sell from time to time, in one or more series, any of the securities of the Company, for total gross proceeds up to \$150,000,000. On June 17, 2016, the SEC declared the S-3 effective; we have yet to utilize any of the \$150,000,000 registered under the S-3. 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. 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 biopharmaceutical business, and may include, at management's discretion, new clinical trials for other indications, strategic partnerships, joint ventures,

acquisition of licensing rights from new or current partners 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 biopharmaceutical 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 lack of codified cell therapy regulation for clinical trial IND filing in China, 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 increased competition on both domestic and foreign companies launching immune cell therapy ventures in China, the increased hurdle for Chinese investors to transfer CNY to U.S. dollars for investment, the risks associated with our corporate structure, risks relating to our 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 biopharmaceutical 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.



Contractual Obligations

We have various contractual obligations that will affect our liquidity. The following table sets forth our contractual obligations as of June 30, 2017.

Contractual Obligations	Payments due by period				
	Total	Less than 1 year	2-3 years	4-5 years	More than 5 years
Capital Commitment	\$5,670,138	\$5,433,147	236,991	-	-
Operating Lease Obligations	25,351,512	4,062,466	5,426,297	4,915,292	10,947,457
Total	\$31,021,650	\$9,495,613	\$5,663,288	\$4,915,292	\$10,947,457



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

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Company's business. The Company's exposure to these risks and the financial risk management policies and practices used by the Company to manage these risks are described below.

## Interest Rate Risk

The Company's interest rate risk arises primarily from cash deposited at banks and the Company doesn't have any interest-bearing long-term payable/ borrowing, therefore its exposure to interest rate risk is limited.

## Currency Risk

The Company is exposed to currency risk primarily from sales and purchases which give rise to receivables, payables that are denominated in a foreign currency (mainly RMB). The Company has adopted USD as its functional currency, thus the fluctuation of exchange rates between RMB and USD exposes the Company to currency risk.

The following table details the Company's exposure as of June 30, 2017 to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in USD translated using the spot rate as of June 30, 2017. Differences resulting from the translation of the financial statements of entities into the Company's presentation currency are excluded.

	Exposure to foreign currencies (Expressed in USD)	
	As of June 30, 2017	
	RMB	USD
Cash and cash equivalents	863	1,199,928
Net exposure arising from recognised assets and liabilities	863	1,199,928

The following table indicates the instantaneous change in the Company's net loss that would arise if foreign exchange rates to which the Company has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant.

As of June 30, 2017		
	increase/(decrease) in foreign exchange rates	Effect on net loss (Expressed in USD)
RMB (against USD)	5%	(59,953)

-5%

59,953

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Company's subsidiaries' net loss measured in the respective functional currencies, translated into USD at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Company which expose the Company to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the Company which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of subsidiaries into the Company's presentation currency.



## 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 June 30, 2017, 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

None.

## ITEM 1A. RISK FACTORS

During the three months ended June 30, 2017, 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, 2016.

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

As previously disclosed on a Current Report on Form 8-K filed on June 1, 2017, the Company authorized a share repurchase program (the “Share Repurchase Program”), pursuant to which the Company may, from time to time, purchase shares of its common stock for an aggregate purchase price not to exceed \$10 million. The table below summarizes purchases made by or on behalf of the Company or affiliated purchasers as defined in Regulation S-K under the Share Purchase Program.

Period	(a) Total number of shares purchased	(b) Average price paid per share	(c) Total number of shares purchased as part of publicly announced plans or programs	(d) Maximum dollar value of shares that may yet be purchased under the plans or programs
June 2017 (From June 9, 2017 to June 30, 2017)	170,169	\$7.98	170,169	\$8,642,069
Total	170,169	\$7.98	170,169	\$8,642,069

## 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 and 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: August 8, 2017 By: /s/ Bizuo (Tony) Liu  
Bizuo (Tony) Liu  
Chief Executive Officer and Chief Financial Officer  
(Principal Executive Officer and Principal Financial and Accounting Officer)