Cellular Biomedicine Group, Inc.
Form 10-Q
May 07, 2018

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

FORM 10-Q

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

For the quarterly period ended March 31, 2018

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):

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 April 30, 2018, there were 17,488,377 and 17,006,137 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 MARCH 31, 2018 AND DECEMBER 31, 2017

	March 31, 2018	December 31, 2017
Assets		
Cash and cash equivalents	$45,555,891	$21,568,422
Accounts receivable, less allowance for doubtful accounts of $11,212and $10,789 as of March 31, 2018 and December 31, 2017, respectively	128,879	202,887
Other receivables	937,447	902,940
Prepaid expenses	2,033,836	1,852,695
Total current assets	48,656,053	24,526,944
Investments	269,424	269,424
Property, plant and equipment, net	14,600,398	12,973,342
Goodwill	7,678,789	7,678,789
Intangibles, net	12,029,782	12,419,692
Long-term prepaid expenses and other assets	3,491,710	3,294,105
Total assets (1)	$86,726,156	$61,162,296
Liabilities and Stockholders' Equity		
Liabilities:		
Accounts payable	$331,753	$225,287
Accrued expenses	1,855,508	1,097,327
Taxes payable	31,275	28,875
Other current liabilities	2,986,701	2,324,632
Total current liabilities	5,205,237	3,676,121
Other non-current liabilities	198,849	183,649
Total liabilities (1)	5,404,086	3,859,770
Commitments and Contingencies (note 12)		
Stockholders' equity:		
Preferred stock, par value $.001, 50,000,000 shares authorized; none issued and outstanding as of March 31, 2018 and December 31, 2017, respectively	-	-
	17,454	15,616

Common stock, par value $.001, 300,000,000 shares authorized; 17,453,623 and 15,615,558 issued; and 16,989,367 and 15,188,764 outstanding, as of March 31, 2018 and December 31, 2017, respectively		
Treasury stock at cost; 464,256 and 426,794 shares of common stock as of March 31, 2018 and December 31, 2017, respectively	(4,693,597)	(3,977,929)
Additional paid in capital	205,102,775	172,691,339
Accumulated deficit	(119,533,420)	(111,036,997)
Accumulated other comprehensive loss	428,858	(389,503)
Total stockholders' equity	81,322,070	57,302,526
Total liabilities and stockholders' equity	$86,726,156	$61,162,296

(1) The Company’s consolidated assets as of March 31, 2018 and December 31, 2017 included $22,653,860 and $21,775,087, respectively, of assets of variable interest entities, or VIEs, that can only be used to settle obligations of the VIEs. Each of the following amounts represent the balances as of March 31, 2018 and December 31, 2017, respectively. These assets include cash and cash equivalents of $1,559,223 and $2,337,173; other receivables of $832,490 and $773,384; prepaid expenses of $1,817,395 and $1,750,509; property, plant and equipment, net, of $14,128,478 and $12,477,315; intangibles of $1,520,386 and $1,516,449; and long-term prepaid expenses and other assets of $2,795,888 and $2,920,257. The Company’s consolidated liabilities as of March 31, 2018 and December 31, 2017 included $4,074,260 and $2,688,520, respectively, of liabilities of the VIEs whose creditors have no recourse to the Company. These liabilities include accounts payable of $256,485 and $181,231; other payables of $2,295,143 and $1,631,582; payroll accrual of $1,318,687 and $682,248; deferred income of $5,097 and $9,810; and other non-current liabilities of $198,848 and $183,649. 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 INCOME (LOSS)
(UNAUDITED)
FOR THE THREE MONTHS ENDED MARCH 31, 2018 AND 2017

	For the Three Months Ended March 31,	
	2018	2017
Net sales and revenue	$50,961	$98,425
Operating expenses:		
Cost of sales	22,300	37,402
General and administrative	3,188,797	3,185,247
Selling and marketing	74,585	117,884
Research and development	5,273,951	3,044,125
Total operating expenses	8,559,633	6,384,658
Operating loss	(8,508,672)	(6,286,233)
Other income		
Interest income	5,449	49,182
Other income	9,200	77,508
Total other income	14,649	126,690
Loss before taxes	(8,494,023)	(6,159,543)
Income taxes provision	(2,400)	(2,450)
Net loss	$(8,496,423)	$(6,161,993)
Other comprehensive income:		
Cumulative translation adjustment	818,361	53,669
Total other comprehensive income:	818,361	53,669
Comprehensive loss	$(7,678,062)	$(6,108,324)
Net loss per share :		
Basic	$(0.51)	$(0.43)
Diluted	$(0.51)	$(0.43)
Weighted average common shares outstanding:		
Basic	16,742,591	14,281,745
Diluted	16,742,591	14,281,745

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 THREE MONTHS ENDED MARCH 31, 2018 AND 2017

	For the Three Months Ended March 31,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(8,496,423)	$(6,161,993)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,175,488	669,739
Loss on disposal of assets	935	237
Stock based compensation expense	1,134,881	1,431,907
Changes in operating assets and liabilities:		
Accounts receivable	81,633	(39,411)
Other receivables	(4,820)	(398,190)
Prepaid expenses	(112,228)	(78,832)
Long-term prepaid expenses and other assets	(436,503)	6,524
Accounts payable	26,596	565,236
Accrued expenses	731,748	(844,172)
Other current liabilities	276,230	(2,012)
Taxes payable	2,400	2,450
Other non-current liabilities	8,012	(10,146)
Net cash used in operating activities	(5,612,051)	(4,858,663)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of intangibles	-	(23,268)
Purchases of property, plant and equipment	(1,082,635)	(1,026,994)
Net cash used in investing activities	(1,082,635)	(1,050,262)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from the issuance of common stock	30,508,670	-
Proceeds from exercise of stock options	769,723	5,514
Repurchase of treasury stock	(715,668)	-
Net cash provided by financing activities	30,562,725	5,514
EFFECT OF EXCHANGE RATE CHANGES ON CASH	119,430	12,763
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	23,987,469	(5,890,648)

CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	21,568,422	39,252,432
CASH AND CASH EQUIVALENTS, END OF PERIOD	$45,555,891	$33,361,784
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for income taxes	$-	$-

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

CELLULAR BIOMEDICINE GROUP, INC.
FOR THE THREE MONTHS ENDED MARCH 31, 2018 AND 2017
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 clinical stage biopharmaceutical company, principally engaged in the development of therapies for cancer 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 cancer indications comprised of technologies in Chimeric Antigen Receptor modified T cells (CAR-T), T-Cell Receptor (TCR), cancer vaccine, and (ii) human adipose-derived mesenchymal progenitor cells (haMPC) for treatment of joint and autoimmune diseases. CBMG's Research& Development are based in China and the U.S., and its manufacturing facilities are based in China in the cities of Shanghai, Wuxi, and Beijing.

We are focused on developing and marketing safe and effective cell-based therapies based on our cellular platforms, to treat cancer, orthopedic diseases and metabolic diseases. We have developed proprietary technologies and know-hows in our cell therapy platforms. We are conducting clinical studies in China with our stem cell based therapies to treat knee osteoarthritis ("KOA"). We have completed a 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 have also completed a Phase I clinical trial of our off-the-shelf allogeneic haMPC (AlloJoin™) therapy for treating KOA patients. We have also completed and presented the Allojoin™ Phase I 48-week data in China.

Our primary target market is Greater China. We believe that our cell-based therapies will be able to help patients with high unmet medical needs. We expect to carry out clinical studies leading to the eventual CFDA approval of our products through Biologics License Application (BLA) filings and authorized clinical centers throughout Greater China.

We have launched clinical trials using our CAR-T products in B-cell non-Hodgkin lymphoma ("NHL"), Diffuse large B-cell lymphoma ("DLBCL") and adult acute lymphoblastic leukemia ("ALL"). We may also establish partnerships with other companies for co-development in CAR-T, TCR-T and stem cell based therapies. We are striving to build a highly competitive research and development function, a translational medicine unit, along with a well-established cellular manufacturing capability and ample capacity, to support the development of multiple assets in multiple indications. These efforts will allow us to boost the Company's Immuno-Oncology presence and pave the way for additional 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, 2017 included in our Annual Report on Form 10-K for the year ended December 31, 2017. Operating results for the three months ended March 31, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018.

Principles of Consolidation

Our unaudited condensed consolidated financial statements reflect all adjustments, which are, in the opinion of management, necessary for a fair presentation of our financial position and results of operations. Such adjustments are of a normal recurring nature, unless otherwise noted. The balance sheet as of March 31, 2018 and the results of operations for the three months ended March 31, 2018 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 if assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. We believe that the estimates, judgments and assumptions are reasonable, based on information available at the time they are made. Actual results could differ materially from those estimates.

Recent Accounting Pronouncements

Accounting pronouncements adopted during the three months ended March 31, 2018

In May 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 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. The adoption of the ASU 2017-09 did not have a material impact on the Company's 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 non-controlled 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. The adoption of the ASU 2017-05 did not have a material impact on the Company's 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. The adoption of the ASU 2016-18 did not have a material impact on the Company's 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. The adoption of the ASU 2016-15 did not have a material impact on the Company's 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. The adoption of the ASU 2016-01 did not have a material impact on the Company's consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" ("ASU 2014-09"), which amended the existing accounting standards for revenue recognition. ASU 2014-09 establishes principles for recognizing revenue upon the transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. ASU 2014-09 and its related clarifying ASUs are effective for annual reporting periods beginning after December 15, 2017 and interim periods within those annual periods. The Company adopted ASC Topic 606, Revenue from Contracts with Customers, in the first quarter of 2018 using the modified retrospective transition approach. Because the Company's primary source of revenues for the three-month period ended March 31, 2018 was only from cell banking services as well as cell therapy technology services, and the service revenues are recognized when the cell banking and cell therapy technology services are rendered (i.e., the two performance obligations that arise from its contracts with customers are satisfied), the impact on its consolidated financial statements from adoption of ASC Topic 606 is not material.

Accounting pronouncements not yet effective to adopt

In February 2018, the FASB issued ASU No. 2018-02, "Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income" ("ASU 2018-02"), which provides financial statement preparers with an option to reclassify stranded tax effects within accumulated other comprehensive income to retained earnings in each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act (or portion thereof) is recorded. The amendments in this ASU are effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption of ASU 2018-02 is permitted, including adoption in any interim period for the public business entities for reporting periods for which financial statements have not yet been issued. The amendments in this ASU

should be applied either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act is recognized. We do not expect the adoption of ASU 2018-02 to have a material impact on our consolidated financial statements.

In July 2017, the FASB issued ASU No. 2017-11, “Earnings Per Share (Topic 260); Distinguishing Liabilities from Equity (Topic 480); Derivatives and Hedging (Topic 815): (Part I) Accounting for Certain Financial Instruments with Down Round Features, (Part II) Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Non-controlling Interests with a Scope Exception” (“ASU 2017-11”), which addresses the complexity of accounting for certain financial instruments with down round features. Down round features are features of certain equity-linked instruments (or embedded features) that result in the strike price being reduced on the basis of the pricing of future equity offerings. Current accounting guidance creates cost and complexity for entities that issue financial instruments (such as warrants and convertible instruments) with down round features that require fair value measurement of the entire instrument or conversion option. The amendments in Part I of this ASU are effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company is currently evaluating the impact of the adoption of ASU 2017-11 on its 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 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.

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 all of 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 March 31, 2018 and 2017, 52% and nil 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 March 31, 2018 and December 31, 2017 are as follows:

	March 31, 2018	December 31, 2017
Assets		
Cash	$1,559,223	$2,337,173
Other receivables	832,490	773,384
Prepaid expenses	1,817,395	1,750,509
Total current assets	4,209,108	4,861,066
Property, plant and equipment, net	14,128,478	12,477,315
Intangibles	1,520,386	1,516,449
Long-term prepaid expenses and other assets	2,795,888	2,920,257
Total assets	$22,653,860	$21,775,087
Liabilities		
Accounts payable	$256,485	$181,231
Other payables	2,295,143	1,631,582
Payroll accrual	1,318,687	682,248
Deferred income	5,097	9,810
Total current liabilities	$3,875,412	$2,504,871
Other non-current liabilities	198,848	183,649
Total liabilities	$4,074,260	$2,688,520

NOTE 4 – OTHER RECEIVABLES

The Company pays deposits on various items relating to office expenses. Management has classified these deposits as other receivables as the intention is to recover these deposits in less than 12 months. As of March 31, 2018 and December 31, 2017 the amounts of other receivables was $937,447 and $902,940, respectively.

NOTE 5 – PROPERTY, PLANT AND EQUIPMENT

As of March 31, 2018 and December 31, 2017, property, plant and equipment, carried at cost, consisted of the following:

	March 31, 2018	December 31, 2017
Office equipment	$108,874	$105,114
Manufacturing equipment	5,543,187	4,781,936
Computer equipment	272,033	233,539
Leasehold improvements	13,177,467	4,196,589
Construction work in process	193,803	7,498,272
	19,295,364	16,815,450
Less: accumulated depreciation	(4,694,966)	(3,842,108)
	$14,600,398	$12,973,342

For the three months ended March 31, 2018 and 2017, depreciation expense was $726,618 and $222,926, 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:

March 31, 2018 and December 31, 2017	Cost	Gross Unrealized Gains/(losses)	Gross Unrealized Losses more than 12 months	Gross Unrealized Losses less than 12 months	Market or Fair Value
Equity position in Alpha Lujo, Inc.	$251,388	$-	$(221,964)	$-	$29,424
Equity position in Arem Pacific Corporation	480,000	-	-	(240,000)	240,000
Total	$731,388	$-	$(221,964)	$(240,000)	$269,424

There is no unrealized holding gains or losses for the investments that recognized in other comprehensive income for the three months ended March 31, 2018 and 2017.

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 March 31, 2018 and 2017.

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 March 31, 2018 and December 31, 2017 are summarized as follows:

	As of March 31, 2018 and December 31, 2017			
		Fair Value Measurements at Reporting Date Using:		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Equity position in Alpha Lujo, Inc.	$29,424	$-	$29,424	$-
Equity position in Arem Pacific Corporation	240,000	-	240,000	-
	$269,424	$-	$269,424	$-

No shares were acquired in the three months ended March 31, 2018 and 2017.

As of March 31, 2018 and December 31, 2017, 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 March 31, 2018 and December 31, 2017 have been valued based on level 2 inputs due to the limited trading 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 March 31, 2018 and December 31, 2017, intangible assets, net consisted of the following:

Patents & knowhow & license

	March 31, 2018	December 31, 2017
Cost basis	$17,751,228	$17,674,431
Less: accumulated amortization	(5,788,742)	(5,325,113)
	$11,962,486	$12,349,318

Software

	March 31, 2017	December 31, 2016
Cost basis	$164,468	$158,273
Less: accumulated amortization	(97,172)	(87,899)
	$67,296	$70,374
Total intangibles, net	$12,029,782	$12,419,692

All software is provided by a third party vendor, is not internally developed, and has an estimated useful life of five years. Patents and knowhow are amortized using an estimated useful life of three to ten years. Amortization expense for the three months ended March 31, 2018 and 2017 was $448,870 and $446,813, respectively.

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

Years ending March 31,	Amount
2019	$1,796,957
2020	1,796,181
2021	1,791,184
2022	1,783,466
2023 and thereafter	4,861,994
	$12,029,782

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 months ended March 31, 2018 and 2017 was approximately $967,432 and $894,885, respectively.

As of March 31, 2018, the Company has the following future minimum lease payments due under the foregoing lease agreements:

Years ending March 31,	Amount
2019	$3,112,005
2020	2,958,850
2021	2,658,663
2022	2,647,712
2023 and thereafter	12,456,024
	$23,833,254

NOTE 10 – RELATED PARTY TRANSACTIONS

As of March 31, 2018 and December 31, 2017, accrued expenses included director fees of $31,582 and $25,882 due to independent director Mr. Gang Ji.

The Company advanced petty cash to officers for business travel purpose. As of March 31, 2018 and December 31, 2017, other receivables due from officers for business travel purpose was nil and $8,531, respectively.

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 December 15, 2017, the Company entered into a Share Purchase Agreement with three of its executive officers, pursuant to which the Company agreed to sell, and the three executive officers agreed to purchase an aggregate of 41,667 shares of the Company’s common stock, par value $0.001 per share at $12.00 per share, for total gross proceeds of approximately $500,000. The transaction closed on December 22, 2017.

On December 26, 2017, the Company entered into a Share Purchase Agreement with two investors, pursuant to which the Company agreed to sell and the two investors agreed to purchase from the Company, an aggregate of 1,166,667 shares of the Company’s common stock, par value $0.001 per share, at $12.00 per share, for total gross proceeds of approximately $14,000,000. The transaction closed on December 28, 2017. Together with a private placement with three of its executive officers on December 22, 2017, the Company raised an aggregate of approximately $14.5 million in the two private placements in December 2017.

On January 30, 2018 and February 5, 2018, the Company entered into securities purchase agreements with certain investors pursuant to which the Company agreed to sell, and the investors agreed to purchase from the Company, an aggregate of 1,719,324 shares of the Company’s common stock, par value $0.001 per share, at $17.80 per share, for

total gross proceeds of approximately $30.6 million. The transaction closed on February 5, 2018.

During the three months ended March 31, 2018 and 2017, the Company expensed $704,543 and $1,415,751 associate with unvested options awards, $430,338 and $16,156 associated with restricted common stock, respectively.

During the three months ended March 31, 2018 and 2017, options for 102,430 and 600 underlying shares were exercised, 102,430 and 600 shares of the Company’s common stock were issued accordingly.

During the three months ended March 31, 2018 and 2017, 16,311 and 4,035 shares of the Company's restricted common stock were issued to directors, employees and advisors respectively.

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.

From June 1, 2017 to March 31, 2018 and January 1, 2018 to March 31, 2018, the Company repurchased 464,256 and 37,462 shares of the Company’s common stock with the total cost of $4,693,597 and $715,668, respectively. There was no repurchase of stock in 2016. Details are as follows:

	Total number of shares purchased	Average price paid per share
Treasury stock at December 31, 2017	426,794	$9.32
Repurchased during January 1, 2018 to March 31, 2018	37,462	$19.10
Treasury stock at March 31, 2018	464,256	$10.11

NOTE 12 – COMMITMENTS AND CONTINGENCIES

Capital commitments

As of March 31, 2018, the capital commitments of the Company are summarized as follows:

	March 31, 2018
Contracts for acquisition of plant and equipment being or to be executed	$3,088,581

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 months ended March 31, 2018 and 2017 was $704,543 and $1,415,751, respectively. The compensation cost that has been

charged against income related to restricted stock awards for the three months ended March 31, 2018 and 2017 was $430,338 and $16,156, respectively.

As of March 31, 2018, there was $4,061,162 all unrecognized compensation cost related to an aggregate of 526,949 of non-vested stock option awards and $351,930 related to an aggregate of 39,103 of non-vested restricted stock awards. These costs are expected to be recognized over a weighted-average period of 1.9 years for the stock options awards and 1.3 years for the restricted stock awards.

During the three months ended March 31, 2018, the Company issued options under the 2011 Plan, 2013 Plan and 2014 Plan of an aggregate of 30,593 shares of the Company's common stock. The grant date fair value of these options was $420,679 using Black-Scholes option valuation models with the following assumptions: exercise price equal to the grant date stock price of $14.5 to $21.8, volatility 90.06% to 90.43%, expected life 6.0 years, and risk-free rate of 2.33% to 2.71%. The Company is expensing these options on a straight-line basis over the requisite service period.

During the three months ended March 31, 2017, the Company issued options under the 2011 Plan, 2013 Plan and 2014 Plan of an aggregate of 387,741 shares of the Company's common stock. The grant date fair value of these options was $3,524,124 using Black-Scholes option valuation models with the following assumptions: exercise price equal to the grant date stock price of $11.05 to $13.2, volatility 89.05% to 89.23%, expected life 6.0 years, and risk-free rate of 1.96% to 2.29%. The Company is expensing these options on a straight-line basis over the requisite service period.

The following table summarizes stock option activity as of March 31, 2018 and December 31, 2017 and for the three months ended March 31, 2017:

	Number of Options	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at December 31, 2017	1,892,189	$11.54	7.0	$4,909,194
Grants	30,593			
Forfeitures	(5,400)			
Exercises	(102,430)			
Outstanding at March 31, 2018	1,814,952	$11.90	6.8	$12,051,569
Vested and exercisable at March 31, 2018	1,288,003	$10.99	6.1	$9,622,751

Exercise Price	Number of Options Outstanding	Exercisable
$3.00 - $4.95	185,547	185,547
$5.00 - $9.19	493,654	439,474
$11.05+	1,135,751	662,982
	1,814,952	1,288,003

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

Cash received from option exercises under all share-based payment arrangements for the three months ended March 31, 2018 and 2017 was $769,723 and $5,514.

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 March 31,	
	2018	2017
Net loss	$(8,496,423)	$(6,161,993)
Weighted average shares of common stock	16,742,591	14,281,745
Dilutive effect of stock options	-	-
Restricted stock vested not issued	-	-
Common stock and common stock equivalents	16,742,591	14,281,745
Net loss per basic share	$(0.51)	$(0.43)
Net loss per diluted share	$(0.51)	$(0.43)

For the three months ended March 31, 2018 and 2017, 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 months ended March 31, 2018 and 2017.

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 March 31, 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).

On December 22, 2017, US President signed tax reform bill (Tax Cut and Jobs Act (H.R.1)) and reduced top corporate tax rate from 35% to 21% effective from January 1, 2018. Pursuant to this new Act, non-operating loss carry back period is eliminated and an indefinite carry forward period is permitted. As of March 31, 2018, the Company had net operating loss carryforwards of $13.9 million for Chinese income tax purposes, such losses are set to expire in 2023 for Chinese income tax purposes. All deferred income tax expense is offset by changes in the valuation allowance pertaining to the Company's existing net operating loss carryforwards due to the unpredictability of future profit streams prior to the expiration of the tax losses. The Company's effective tax rate differs from statutory rates of 21% 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 2015. CBMG Shanghai plans to re-apply for the certificate of "advanced and new technology enterprise" before the October 2015 issued certificate expires in October, 2018.

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 ASC Topic 280-10, the Company is not required to report the segment information.

NOTE 17 – SUBSEQUENT EVENTS

On April 18, 2018 and April 21, 2018, the China Food and Drug Administration (CFDA) Center for Drug Development (CDE) posted on its website acceptance of the Investigative New Drug (IND) application for CAR-T cancer therapies in treating patients with B-cell non- Hodgkin lymphoma (NHL) and adult acute lymphoblastic leukemia (ALL) submitted by two of the wholly-owned subsidiaries of the Company, respectively.

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

The following discussion and analysis summarizes the significant factors affecting our results of operations, financial condition and liquidity position for the three months ended March 31, 2018 and 2017, 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", "expe "plans", "anticipates", "believes", "estimates", "projects", "predicts", "potential" and similar expressions. These statements ref 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.

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Recent Developments

On January 3, 2017, we announced the signing of a ten-year lease of an 113,038-square foot 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 $35 million into the Zhangjiang facility, of which $10 million will be spent to bring the facility into compliance with current GMP standards and around $25 million will be spent on lease of this real estate. At the end of 2017, the combination of new Zhangjiang facility, an expanded Wuxi, and Beijing facilities, have an aggregate of approximately 70,000 square feet for cell manufacturing. The Company expects that it will be capable of supporting clinical trials for five different CAR-T and stem cell products simultaneously, or the ability to produce products to treat approximately 10,000 cancer patients and 10,000 KOA patients per year. To reach this capacity, we are hiring an additional 60 R&D and Manufacturing personnel by end of 2018.

On January 9, 2017, we announced the commencement of patient enrollment in China for our CALL-1 ("CAR-T against Acute Lymphoblastic Leukemia") Phase I clinical trial of CD19 CAR-T therapy utilizing our optimized proprietary C-CAR011 construct for the treatment of patients with relapsed or refractory (r/r) CD19+ B-cell ALL. The CALL-1 trial began enrollment with more data expected to be available in the first half of 2018. Depending on the Phase I CALL-1 results, CBMG expects to initiate a larger Phase II clinical trial as soon as possible.

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 KOA in the United States. 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 KOA in the United States.

On March 30, 2017 we announced the completion of our newly expanded 30,000-square foot facility in Huishan High Tech Park in Wuxi, China. 20,000 square feet of the Wuxi 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 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 or refractory B cell Non-Hodgkin Lymphoma (NHL). 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-CD3zeta)) therapy in relapsed or refractory B cell NHL patients. 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 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 2017 Stock Repurchase Program contemplates repurchase shares of the Company's common stock in the open market in accordance with all applicable securities laws and regulations. From June 2017 to March 2018 the Company repurchased a total of 464,256 shares at a total cost of $4,693,597, or an average of $10.11/share.

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.

On November 4, 2017, we announced the grand opening of our Zhangjiang facility. On the same day, we announced the signing of a strategic partnership with Thermo Fisher Scientific (China) Ltd. to build a joint Cell Therapy Technology Innovation and Application Center (Center) at CBMG's newly opened Shanghai Zhangjiang facility.

On December 28, 2017, the Company announced the closing of two private placement transactions pursuant to which we sold an aggregate of 1,208,333 shares of the Company's common stock to select key executives and private investors at $12.00 per share, for total aggregate gross proceeds of approximately $14.5 Million.

On January 30, 2018 and February 5, 2018, the Company entered into securities purchase agreements with certain investors pursuant to which the Company agreed to sell, and the investors agreed to purchase from the Company, an aggregate of 1,719,324 shares (the "February 2018 Private Placement") of the Company's common stock, par value $0.001 per share, at $17.80 per share, for total gross proceeds of approximately $30.6 million. The transaction closed on February 5, 2018. Pursuant to the purchase agreement, the Investors have the right to nominate one director to the board of directors of the Company to stand for election at the 2018 Annual Meeting of Stockholders. Effective as of the closing of the February 2018 Private Placement, Bosun S. Hau was appointed as a non-executive Class III director of the Company.

On February 6, 2018, driven primarily by the Company's strategy move to expand its business operations in early diagnosis and cancer intervention, Meng Xia transitioned from the role of Chief Operating Officer to Head of the Early Diagnosis & Intervention for the Company.

On February 15, 2018, the Company obtained a 36 months exclusive option with Augusta University to negotiate a royalty-bearing, exclusive license to the patent rights owned by the Augusta University relating to an invention to identify novel alpha fetoprotein specific T-cell receptors (TCR) for a hepatocellular carcinoma ("HCC") immunotherapy. The Company is evaluating the feasibility and opportunities of this novel alpha fetoprotein TCR to redirect T Cells for the HCC indication.

On March 16, 2018, we issued a press release announcing the presentation of the Allojoin™ Phase I 48-week data in China, as well as the termination of the Company's U.S. Allojoin™ program with CIRM. Prior to termination, the Company had received $1.2 million of the potential $2.29 million available under the CIRM grant.

On April 18, 2018 and April 21, 2018, the CFDA CDE posted on its website acceptance of the IND application for CAR-T cancer therapies in treating patients with NHL and ALL submitted by two of the wholly-owned subsidiaries of the Company, respectively.

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:

File Allojoin™ IND application with the CFDA's CDE in China;

Continue to evaluate the path to the Rejoin™ commercialization based on China's autologous stem cell therapy regulatory development;

Bolster R&D resources to fortify our intellectual properties portfolio and scientific development. Continue to develop a competitive immune cell therapy pipeline for CBMG. Seek opportunities to file new patent applications in China and potentially the rest of the world;

Continue to identify and evaluate advanced technologies and seek partnerships to bolster our competitive edge in the cell therapy field in China;

Confirm the safety and efficacy profile of C-CAR011 in China in refractory aggressive DLBCL and to initiate a larger Phase II clinical trial whenever feasible;

Confirm the safety and efficacy 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;

Initiate an investigator sponsored phase I trial of anti-BCMA CART in adults with relapsed/refractory multiple myeloma;

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

Implement steps to advance our Thermo Fisher Joint Cell Therapy Technology Innovation and Application Center;

Initiate clinical study to support the BLA for Autologous and Allogeneic KOA study in China;

Evaluate new regenerative medicine technology platform for other indications and review recent development in the competitive landscape;

Evaluate our corporate development strategy on maintaining the CAR-T and regenerative medicine dual technology platform;

Advance the evaluation on feasibility and opportunities of novel Alpha Fetoprotein Specific T Cell Receptors (TCR) to redirect T Cells for a HCC Immunotherapy;

Develop the new cancer diagnostics and intervention business; and

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

Corporate History

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

BIOPHARMACEUTICAL BUSINESS

Our biopharmaceutical 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. In November 2017, we announced the grand opening of our Zhangjiang facility in Shanghai, of which 40,000 square feet was designed and built to GMP standards and dedicated to advanced cell manufacturing. 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.

Cancer. In the cancer field, with the recent build-up of multiple cancer therapeutic technologies, we have prioritized our clinical efforts on CAR-T. We are not actively pursuing the fragmented Tcm technical services opportunities. 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 2018. 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 commensurate with the CDE’s approval of the Company’s IND application. On April 21, 2018, the CDE posted on its website acceptance of the IND application for CAR-T cancer therapies in treating patients with adult ALL submitted by our wholly-owned subsidiaries, Cellular Biomedicine Group (Shanghai) Ltd. and Shanghai Cellular Biopharmaceutical Group Ltd. Depending on the Phase I CARD-1 and CALL-1 results, we expect to initiate larger trials to confirm the safety and efficacy profile and support BLA submission as soon as practicable.

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. Recruitment has started on patients comprised of DLBCL, Primary Mediastinal Large B-Cell Lymphoma (PMBCL) and Follicular Lymphoma (FL). Final data for this 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) is expected commensurate with the CDE's approval of the Company's IND application. On April 18, 2018, the CDE posted on its website acceptance of the IND application for CAR-T cancer therapies in treating patients with NHL submitted by our wholly-owned subsidiaries, Cellular Biomedicine Group (Shanghai) Ltd. and Shanghai Cellular Biopharmaceutical Group Ltd.

KOA. In 2013, we completed a Phase I/IIa clinical study, in China, for our Knee Osteoarthritis ("KOA") therapy named Re-Join®. 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 Re-Join® therapy to be both safe and effective.

In Q2 of 2014, we completed patient enrollment for the Phase IIb clinical trial of Re-Join® 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 week data indicated that patients have reported a decrease in pain and a significant improvement in mobility and flexibility, while the clinical data shows our Re-Join® regenerative medicine treatment to be safe. We announced the interim 24 week results for Re-Join® 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 Re-Join® therapy group having all improved significantly compared to their baseline, which has confirmed some of the Company's Phase I/IIa results. Our Re-Join® 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 Allogenic 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. On March 16, 2018, we announced the positive 48-week Allojoin™ Phase I data in China, which demonstrated good safety and early efficacy for the prevention of cartilage deterioration.

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. The quality management systems of CBMG Shanghai were issued a Certificate of ISO-9001:2008 and to be updated to 9001:2015 in this year. (i)The cleanrooms in our new facility are ISO certified and in compliance with China's Good Manufacture Practice of Medical Products; (ii) the equipment in the new Shanghai facility has been calibrated and qualified, and the biological safety cabinets were ISO certified. The quality management systems of CBMG Wuxi were issued a Certificate of ISO-9001 and we are in the process of qualifying the new Wuxi site.

Our proprietary processes and procedures include (i) banking of allogenic cellular product and intermediate product; (ii) manufacturing procedures of GMP-grade viral vectors; (iii) manufacturing procedures of GMP-grade cellular product; (iv)analytical testing to ensure the safety, identity, purity and potency of cellular product.

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 ALL who had few if any remaining treatment options, many patients' cancers have disappeared entirely. Several of these patients have remained cancer free for extended periods.

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

ACT's building blocks are T cells, a type of immune cell collected from the patient's own blood. After collection, the T cells are genetically engineered to produce special receptors on their surface called chimeric antigen receptors (CARs). CARs are proteins that allow the T cells to recognize a specific protein (antigen) on tumor cells. These engineered CAR T cells are then grown in the laboratory until they number in the billions. The expanded population of CAR T cells is then infused into the patient. After the infusion, if all goes as planned, the T cells multiply in the patient's body and, with guidance from their engineered receptor, recognize and kill cancer cells that harbor the antigen on their surfaces. This process builds on a similar form of ACT pioneered from NCI's Surgery Branch for patients with advanced melanoma. According to www.cancer.gov/.../research-updates/2013/CAR-T-Cells, 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.

So far, chimeric antigen receptor T cell therapy 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 have them lived for years post CAR-T treatment.

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.

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.

In August 2017, the U.S. FDA approved Novartis' CAR-T therapy on relapsed or refractory (r/r) acute lymphoblastic leukemia (ALL), the most common cancer in children. Current treatments show a rate of 80% remission using intensive chemotherapy. However, there are almost no conventional treatments to help patients who have relapsed or are refractory to traditional treatment. Novartis' Tisagenlecleucel (Kymriah), a CD19-targeted CAR-T therapy for children and adolescents with r/r ALL has shown results of complete and long lasting remission, which led the FDA to approve the drug funded by Novartis as the first CAR-T therapy.

In October 2017, the U.S. FDA approved Kite Pharmaceuticals' (Gilead) CAR-T therapy for diffuse large B-cell lymphoma (DLBCL), the most common type of NHL in adults. The initial results of axicabtagene ciloleucel (Yescarta), Kite Pharma's drug for non-Hodgkin's lymphoma, showed four out of seven patients treated achieved complete remission, which continued after 12 months. The prognosis of high-grade chemo refractory NHL is dismal with a medium survival time of a few weeks. Yescarta is a therapy for patients who have not responded to or who have relapsed after at least two other kinds of treatment.

In December 2017, the Chinese government issued trial guidelines concerning the development and testing of cell therapy products in China. Although these trial guidelines are not yet codified as mandatory regulation, we believe they provide a measure of clarity and a preliminary regulatory pathway for our cell therapy operations in a still uncertain regulatory environment. On April 18 and April 21, 2018, the CDE posted on its website acceptance of the IND application for CAR-T cancer therapies in treating patients with NHL and adult ALL submitted by the Company's wholly-owned subsidiaries Cellular Biomedicine Group (Shanghai) Ltd. and Shanghai Cellular Biopharmaceutical Group Ltd.

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, hyperosteogeny, 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 the Foundation for the National Institutes of Health, there are 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 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.

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 completed KOA cell therapy clinical studies in China, a Phase IIb autologous study and a 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 in China.

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. 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.

Since the acquisition of Beijing Agreen Biotechnology Co. Ltd. (“AG”) in 2014, we have been engaging in efforts 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 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.

We believe that few competitors in China are as well-equipped as we are in the clinical trial development, diversified international standard protocol compliant manufacturing facilities, quality assurance and control processes, regulatory compliance vigor, as well as continuous process improvement stemming from our strategic alliance with General Electric Healthcare's FlexFactory™ platform which is expected to be designed to speed up manufacturing timelines for its cell therapy clinical trials and commercial launch, and Thermo Fisher Scientific (China)'s automated cell therapy manufacturing system.

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 a 36-month exclusive option to license the patent rights owned by the Augusta University relating to an invention to identify novel alpha fetoprotein specific T-cell receptors (TCR) for a hepatocellular carcinoma ("HCC") immunotherapy provides an enlarged opportunity to expand the application of CBMG's cancer therapy-enabling technologies and to initiate clinical trials with leading cancer hospitals.

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

We operate our manufacturing facilities under the design of the standard 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. Our four China facilities are designed and built to meet international GMP standards in Beijing, Shanghai and Wuxi. With our integrated Plasmid, Viral Vectors, and CAR-T cells Chemistry, Manufacturing, and Controls processes and expanding capacity, we are highly distinguishable with other companies in the cellular medicine space.

In total, our facilities have approximately 70,000 square feet of space and are expected to have a capacity to provide therapies that can treat approximately 10,000 cancer patients and 10,000 patients per year.

Most importantly, our seasoned cell therapy team members have decades of highly-relevant experience in China, European Union, and the United States. We believe that these are the primary factors that 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 Re-Join® therapy and our AlloJoin™ 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 Re-Join® therapy to be both safe and effective.

In the second quarter of 2014, we completed patient enrollment for the Phase IIb clinical trial of Re-Join® 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 Re-Join® regenerative medicine treatment to be safe. We announced positive Phase IIb 48-week follow-up data in January 2016, with statistical significant evidence that Re-Join® 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 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 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. The interim analysis of the trial has preliminarily demonstrated a safety and tolerability profile of AlloJoin™ in the three doses tested, and no SAEs have been observed. On March 16, 2018, we announced the positive 48-week Allojoin™ Phase I data in China, which demonstrated good safety and early efficacy for the prevention of cartilage deterioration.

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.

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 autologous 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. For allogeneic KOA we use donor haMPC cells.

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.

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) submit to the CFDA an IND package for Allojoin™ to treat patients with donor haMPC cells, and (c) file joint applications with Class AAA hospitals to use Re-Join® to treat patients with their own haMPC cells.

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, programmed cell death and vaccine technology.

Our CAR-T platform is built on lenti-virial 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 asset and 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.

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 will continue our effort in developing cell based therapies to target both hematological cancers and solid tumors.

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 in China by using the knowledge and experience gained from the Company’s ongoing KOA trials and the recent, CAR-T and Tcm technologies. However, it remains unclear whether our clinical trials will qualify for CFDA’s priority review, which is granted to high-quality innovative medicine 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 in manufacturing.

Competition

Many companies operate in the cellular biopharmaceutical field. In 2010, the FDA approved the first cell therapy for Dendreon Corporation to apply an autologous cellular immunotherapy for the treatment of a certain type of prostate cancer. In May 2012 the Canadian authorities approved the first stem cell drug and granted Osiris Therapeutics’ manufactured stem cell product for use in the pediatric graft-versus-host disease. To date there are many publicly listed and several private cellular biopharmaceutical focused companies outside of China with varying phases of clinical trials addressing a variety of diseases. We compete with these companies in bringing cellular therapies to the market. However, our focus is to develop a core business in the China market. This difference in focus places us in a different competitive environment from other western companies with respect to fund raising, clinical trials, collaborative partnerships, and the markets in which we compete.

The PRC central government has a focused strategy to enable China to compete effectively in certain designated areas of biotechnology and the health sciences. Because of the aging population in China, China’s Ministry of Science and Technology (“MOST”) has targeted stem cell development as high priority field, and development in this field has been intense in the agencies under MOST. For example, the 973 Program has funded a number of stem cell research projects such as differentiation of human embryonic germ cells and the plasticity of adult stem cells. Notwithstanding such governmental support, China has had a highly fragmented cellular medicine landscape. Shenzhen Beike Biotechnology Co. Ltd. (“Beike”) and Union Stem Cell & Gene Engineering Co., Ltd. (“Union Stem Cell”) are two large stem cell companies in China. To the best of our knowledge, none of the Chinese companies are utilizing our proposed international manufacturing protocol and our unique technologies in conducting what we believe will be fully compliant CFDA-sanctioned clinical trials to commercialize cell therapies in

China. Our management believes that it is difficult for most of these Chinese companies to turn their results into translational stem cell science or commercially successful therapeutic products using internationally acceptable standards.

We compete globally with respect to the discovery and development of new cell based therapies, and we also compete within China to bring new therapies to market. The biotechnology industry, namely in the areas of cell processing and manufacturing, clinical development of cellular therapies and cell collection, processing and storage, are characterized by rapidly evolving technology and intense competition. Our competitors worldwide include pharmaceutical, biopharmaceutical and biotechnology companies, as well as numerous academic and research institutions and government agencies engaged in drug discovery activities or funding, in the U.S., Europe and Asia. Many of these companies are well-established and possess technical, research and development, financial, and sales and marketing resources significantly greater than ours. In addition, many of our smaller potential competitors have formed strategic collaborations, partnerships and other types of joint ventures with larger, well established industry competitors that afford these companies potential research and development and commercialization advantages in the technology and therapeutic areas currently being pursued by us. Academic institutions, governmental agencies and other public and private research organizations are also conducting and financing research activities which may produce products directly competitive to those being commercialized by us. Moreover, many of these competitors may be able to obtain patent protection, obtain government (e.g. FDA) and other regulatory approvals and begin commercial sales of their products before us.

Our primary competitors in the field of stem cell therapy for osteoarthritis, and other indications include Beike, Cytori Therapeutics Inc., Caladrius Biosciences, Inc. and others. Among our competitors, to our knowledge, the only ones based in and operating in Greater China are Beike, Lorem Vascular, which has partnered with Cytori to commercialize Cytori Cell Therapy for the cardiovascular, renal and diabetes markets in China and Hong Kong, and OLife Bio, a Medi-Post joint venture with JingYuan Bio in Taian, Shandong Province, who planned to initiate clinical trial in China in 2016.

Our primary competitors in the field of cancer immune cell therapies include pharmaceutical, biotechnology companies such as Novartis, Juno Therapeutics, Inc., Kite Pharma, Inc., CARSgen, Sorrento Therapeutics, Inc. and others. Among our competitors, the ones based in and operating in Greater China are BeiGene, Limited, CARsgen, Hrain Biotechnology, Nanjing Legend Biotechnology, Galaxy Biomed, Persongen and Anke Biotechnology, Shanghai Minju Biotechnology, Unicar Therapy, Immuno China Biotech, Chongqing Precision Biotech, SiDanSai Biotechnology and China Oncology Focus Limited, which has licensed Sorrento’s anti-PD-L1 monoclonal antibody for Greater China. Other western big pharma and biotech companies in the cancer immune cell therapies space are starting to make inroads into China by partnering or seeking to partner with local companies. For example, in April, 2016, Seattle-based Juno Therapeutics, Inc started a new company with WuXi AppTec in China named JW Biotechnology (Shanghai) Co., Ltd. Its mission is to build China's leading cell therapy company by leveraging Juno's chimeric antigen receptor (CAR) and T cell receptor (TCR) technologies together with WuXi AppTec's R&D and manufacturing platform and local expertise to develop novel cell-based immunotherapies for patients with hematologic and solid organ cancers. In January 2017, Shanghai Fosun Pharmaceutical created a joint venture with Santa Monica-based Kite Pharma Inc. to develop, manufacture and commercialize axicabtagene ciloleucel CAR-T product in China with the option to include additional products, including two T cell receptor (TCR) product candidates from Kite. Axicabtagene ciloleucel is Kite's lead product candidate and is an investigational chimeric antigen receptor (CAR) T-cell therapy under development for the treatment of B-cell lymphomas and leukemias. In late 2017 Gilead acquired Kite Pharma for $11.9 billion. On January 22, 2018 Celgene announced that it had agreed to buy Juno Therapeutics for approximately $9 billion.

The CFDA has received applications for CD19 chimeric antigen receptor T cells cancer therapies from companies comprised of the Company, Nanjing Legend Biotechnology, Chengdu Yinhe Biological Medicine, Shanghai HRAIN Biotechnology, Carsgene Biomedicine (Shanghai), Biogene ANKE Cell Technology and Shanghai Mingju Biotechnology.

Additionally, in the general area of cell-based therapies for knee osteoarthritis ailments, we potentially compete with a variety of companies, from big pharma to specialty medical products or biotechnology companies. Some of these, such as Abbvie, Merck KGaA, Sanofi, Teva, GlaxosmithKline, Baxter, Johnson & Johnson, Sanumed, Medtronic and Miltenyi Biotec, are well-established and have substantial technical and financial resources compared to ours. However, as cell-based products are only just emerging as viable medical therapies, many of our more direct competitors are smaller biotechnology and specialty medical products companies comprised of Vericel Corporation, Regeneus Ltd., Advanced Cell Technology, Inc., Nuo Therapeutics, Inc., Arteriocyte Medical Systems, Inc., ISTO technologies, Inc., Ember Therapeutics, Athersys, Inc., Bioheart, Inc., Cytori Therapeutics, Inc., Harvest Technologies Corporation, Mesoblast, Pluristem, Inc., TissueGene, Inc. Medipost Co. Ltd. and others. There are also several non cell-based, small molecule and peptide clinical trials targeting knee osteoarthritis, and several other FDA approved treatment for knee pain.

Some of our competitors also work with adipose-derived stem cells. To the best of our knowledge, none of these companies are currently utilizing the same technologies as ours to treat KOA, nor to our knowledge are any of these companies conducting government-approved clinical trials in China.

Some of our targeted disease applications may compete with drugs from traditional pharmaceutical or Traditional Chinese Medicine companies. We believe that our chosen targeted disease applications are not effectively in competition with the products and therapies offered by traditional pharmaceutical or Traditional Chinese Medicine companies.

We believe we have a strategic advantage over our competitors based on our ability to meet cGMP regulatory requirements, a capability which we believe is possessed by few to none of our competitors in China, in an industry in which meeting exacting standards and achieving extremely high purity levels is crucial to success. In addition, in comparison to the broader range of cellar biopharmaceutical firms, we believe we have the advantages of cost and expediency, and a first mover advantage with respect to commercialization of cell therapy products and treatments in the Greater China market.

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, 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, 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.

ASC Topic 606, Revenue from Contracts with Customers, was effective during the three months ended March 31, 2018. ASC Topic 606 amended the existing accounting standards for revenue recognition (ASC Topic 605, Revenue Recognition) and established principles for recognizing revenue upon the transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. The Company adopted ASC Topic 606 in the first quarter of 2018 using the modified retrospective transition approach. Because the Company's primary source of revenues for the three-month period ended March 31, 2018 was only from cell banking services as well as cell therapy technology services, and the service revenues are recognized when the cell banking and cell therapy technology services are rendered (i.e., the two performance obligations that arise from its contracts with customers are satisfied) , the impact on its consolidated financial statements from adoption of ASC Topic 606 is not material.

Other than as discussed above, during the three months ended March 31, 2018, 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, 2017.

Results of Operations

Below is a discussion of the results of our operations for the three months ended March 31, 2018 and 2017. These results are not necessarily indicative of result that may be expected in any future period. Our prospects should be considered in light of the risks, expenses
and difficulties that we may encounter. We may not be successful in addressing these risks and difficulties.

Comparison of Three Months Ended March 31, 2018 to Three Months Ended March 31, 2017

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

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
	As stated	As stated
Net sales and revenue	$50,961	$98,425
Operating expenses:		
Cost of sales	22,300	37,402
General and administrative	3,188,797	3,185,247
Selling and marketing	74,585	117,884
Research and development	5,273,951	3,044,125
Impairment of investments	-	-
Total operating expenses	8,559,633	6,384,658
Operating loss	(8,508,672)	(6,286,233)
Other income		
Interest income	5,449	49,182
Other income	9,200	77,508
Total other income	14,649	126,690
Loss before taxes	(8,494,023)	(6,159,543)
Income taxes provision	(2,400)	(2,450)
Net loss	$(8,496,423)	$(6,161,993)
Other comprehensive income:		
Cumulative translation adjustment	818,361	53,669
Total other comprehensive income:	818,361	53,669
Comprehensive loss	$(7,678,062)	$(6,108,324)
Net loss per share:		
Basic	$(0.51)	$(0.43)
Diluted	$(0.51)	$(0.43)

Weighted average common shares outstanding:		
Basic	16,742,591	14,281,745
Diluted	16,742,591	14,281,745

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

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
	As stated	As stated
Cost of sales	-	11,139
General and administrative	562,321	867,585
Selling and marketing	20,992	(2,382)
Research and development	551,568	555,565
	1,134,881	1,431,907

Results of Operations

Net sales and revenue

	2018	2017	Change	Percent
For the three months ended March 31,	$50,961	$98,425	$(47,464)	(48)%

Revenue for three months period ended March 31, 2018 was mainly derived from cell banking services as well as cell therapy technology service. Whereas revenue for three months period ended March 31, 2017was derived only from cell therapy technology service.

Cost of Sales

	2018	2017	Change	Percent
For the three months ended March 31,	$22,300	$37,402	$(15,102)	(40)%

The cost of sales in the three months ended March 31, 2018 was commensurate with the sales volume.

General and Administrative Expenses

	2018	2017	Change	Percent
For the three months ended March 31,	$3,188,797	$3,185,247	$3,550	0%

General and administrative expense did not fluctuate significantly from the three months ended March 31, 2017 to the comparable period in 2018, and changes were primarily attributed to the following:

o
A decrease in stock-based compensation expense of $305,000, which primarily resulted from the decline in volume of unvested options;
o
A decrease in rental expense of $543,000, which mainly resulted from the opening of our facility located in the “Pharma Valley” of Shanghai in November 2017. Following the opening, the majority of the rental expense was absorbed in research and development expenses;
o
An increase in depreciation of $72,000, which mainly resulted from opening and depreciation of our facility located in the “Pharma Valley” of Shanghai;
o
An increase in legal, audit and other professional fees of $324,000, a majority of which is attributable to a new capital market advisory expense incurred in the first quarter 2018; and
o
An increase in payroll of $357,000 due to retention bonuses to employees in 2018.

Selling and Marketing Expenses

	2018	2017	Change	Percent
For the three months ended March 31,	$74,585	$117,884	$(43,299)	(37)%

Sales and marketing expenses decreased by approximately $43,000 in the three months ended March 31, 2018 as compared to the three months ended March 31, 2017, primarily as a result of a severance payment in 2017.

Research and Development Expenses

	2018	2017	Change	Percent
For the three months ended March 31,	$5,273,951	$3,044,125	$2,229,826	73%

Research and development costs increased by approximately $2,230,000 in the three months ended March 31, 2018 as compared to the three months ended March 31, 2017. The increase was primarily attributed to the pick-up in our development work and new talents recruited for anti-BCMA target for multiple myeloma, and other solid tumor indications at our newly operating state of the art GMP facility.

Operating Loss

	2018	2017	Change	Percent
For the three months ended March 31,	$(8,508,672)	$(6,286,233)	$(2,222,439)	35%

The increase in the operating loss for the three months ended March 31, 2018 as compared to the same period in 2017 is primarily due to changes in revenues, general and administration expenses and research and development expenses, each of which is described above.

Total Other Income

	2018	2017	Change	Percent
For the three months ended March 31,	$14,649	$126,690	$(112,041)	(88)%

Other income for the three months ended March 31, 2018 was primarily interest income of $5,000 and subsidy income of $15,000, netting of foreign currency exchange loss of $4,000 and equipment disposal loss of $1,000. Other income for the three months ended March 31, 2017 was primarily interest income of $49,000 and subsidy income of $80,000.

Income Taxes Provision

	2018	2017	Change	Percent
For the three months ended March 31,	$(2,400)	$(2,450)	$50	N/A

While we have optimistic plans for our business strategy, we determined that a valuation allowance was necessary given the current and expected near term losses and the uncertainty with respect to our ability to generate sufficient profits from our business model. Therefore, we established a valuation allowance for deferred tax assets other than the extent of the benefit from other comprehensive income. Income tax expense for three months ended March 31, 2018 and 2017 all represent US state tax.

Net Loss

	2018	2017	Change	Percent
For the three months ended March 31,	$(8,496,423)	$(6,161,993)	$(2,334,430)	38%

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

Comprehensive Loss

	2018	2017	Change	Percent
For the three months ended March 31,	$(7,678,062)	$(6,108,324)	$(1,569,738)	26%

Comprehensive loss for the three months ended March 31, 2018 includes a currency translation net gain of approximately $818,000 combined with the changes in net loss. Comprehensive income for the three months ended March 31, 2017 includes a currency translation net gain of approximately $54,000 combined with the changes in net loss.

Liquidity and Capital Resources

We had working capital of $43,450,816 as of March 31, 2018 compared to $20,850,823 as of December 31, 2017. Our cash position increased to $45,555,891 at March 31, 2018 compared to $ 21,568,422 at December 31, 2017, primarily due to an increase in cash provided by financing activities, offset by cash used in operating and investment activities, as further described below.

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 $5,612,000 and $4,859,000 for the three months ended March 31, 2018 and 2017, respectively. The following table reconciles net loss to net cash used in operating activities:

For the three months ended March 31,	2018	2017	Change
Net loss	$(8,496,423)	$(6,161,993)	$(2,334,430)
Non cash transactions	2,311,304	2,101,883	209,421
Changes in operating assets, net	573,068	(798,553)	1,371,621
Net cash used in operating activities	$(5,612,051)	$(4,858,663)	$(753,388)

The 2018 change in non-cash transaction was primarily due to the increase in depreciation and amortization of $506,000 netting of the decline in share based compensation of $297,000 compared with same period in 2017.

Net cash used in investing activities was approximately $1,083,000 and $1,050,000 in the three months ended March 31, 2018 and 2017, respectively. These amounts were primarily the result of additional new equipment and facility improvement.

Cash provided by financing activities was approximately $30,563,000 and $6,000 in the three months ended March 31, 2018 and 2017, respectively. Net cash inflow in the financing activities in 2017 was mainly attributed to the proceeds received from the issuance of common stock and exercise of options net of the repurchase of the Company's common stock.

Liquidity and Capital Requirements Outlook

We anticipate that the Company will require approximately $42 million in cash to operate as planned in the coming 12 months. Of this amount, approximately $30 million will be used in daily operation and approximately $12 million will be used as capital expenditure, although we may revise these plans depending on the changing circumstances of our biopharmaceutical business.

We expect to rely on current cash balances that we hold to provide for these capital requirements. We do not intend to use, and will not rely on our holdings in securities to fund our operations. One of our stocks held, Arem Pacific Corporation, has a declared effective 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 International Education & Investment Group Corporation ("Wonder"), is no longer traded on any stock market. 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. On December 26, 2017, the Company entered into a Share Purchase Agreement with two investors, pursuant to which the Company agreed to sell and the two investors agreed to purchase from the Company, an aggregate of 1,166,667 shares of the Company's common stock, par value $0.001 per share, at $12.00 per share, for total gross proceeds of approximately $14,000,000. The transaction closed on December 28, 2017. Together with a private placement with three of its executive officers on December 22, 2017, the Company raised an aggregate of approximately $14.5 million in the two private placements in December 2017. On January 30, 2018 and February 5, 2018, the Company entered into Securities Purchase Agreements with certain investors, pursuant to which the Company agreed to sell, and the Investors agreed to purchase from the Company, an aggregate of 1,719,324 shares of the Company's common stock, par value $0.001 per share, at $17.80 per share, for total gross proceeds of approximately $30.6 million. The February 2018 Private Placement closed on February 5, 2018. On March 5, 2018, the Company filed a registration statement on Form S-3 for resale of up to 2,927,658 shares acquired on three private placement financing on December, 2017 and on February 2018. On April 9, 2018, the SEC declared the S-3 effective; and on April 11, 2018 we filed the requisite resale prospectus. As we continue to incur losses, achieving profitability is dependent upon the successful development of our cell 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 the state of regulation of our industry in China (e.g. the policies of MOH and the CFDA), the U.S. and other countries, political headwinds affecting our industry, the investment climate for issuers involved in businesses located or conducted within China, the risks associated with our corporate structure, risks relating to our 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 March 31, 2018.

	Payments due by period				
Contractual Obligations	Total	Less than 1 year	2-3 years	4-5 years	More than 5 years
Capital Commitment	$3,088,581	$3,088,581	$-	$-	$-
Operating Lease Obligations	23,833,254	3,112,005	5,617,513	5,295,424	9,808,312
Total	$26,921,835	$6,200,586	$5,617,513	$5,295,424	$9,808,312

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.

Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company's credit risk is primarily attributable to cash at bank and receivables etc. Exposure to these credit risks are monitored by management on an ongoing basis.

The Company's cash is mainly held with well-known or state owned financial institutions, such as HSBC, Bank of China and China Merchant Bank etc. Management does not foresee any significant credit risks from these deposits and does not expect that these financial institutions may default and cause losses to the Company.

In respect of receivables, the Company does not obtain collateral from customers. The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry, country or area in which the customers operate and therefore significant concentrations of credit risk arise primarily when the Group has significant exposure to individual customers. As of March 31, 2018, 90% of the total accounts receivable was due from the largest customer of the Company.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

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 March 31, 2018 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 March 31, 2018. 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 March 31, 2018	
	RMB	USD
Cash and cash equivalents	2,630	3,374,633
Net exposure arising from recognised assets and liabilities	2,630	3,374,633

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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 March 31, 2018	
	increase/(decrease) in foreign exchange rates	Effect on net loss (Expressed in USD)
RMB (against USD)	5%	(168,600)
	-5%	168,600

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 March 31, 2018, 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 March 31, 2018, 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, 2017.

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 during the three months ended March 31, 2018.

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
Prior to 2018	426,794	$9.32	426,794	
January 1, 2018 ~ January 31, 2018	-	$-	-	
February 1, 2018 ~ February 28, 2018	-	$-	-	
March 1, 2018 ~ March 31, 2018	37,462	$19.10	37,462	
Total	464,256	$10.11	464,256	5,306,403

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS

Exhibits

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

SIGNATURES

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

CELLULAR BIOMEDICINE GROUP, INC.
(Registrant)

Date: May 7, 2018 By: /s/ Bizuo (Tony) Liu
Bizuo (Tony) Liu
Chief Executive Officer and Chief Financial Officer
(Principal Executive Officer and Principal Financial and Accounting Officer)