

Taxus Cardium Pharmaceuticals Group Inc.

Form 10-Q

June 18, 2015

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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended March 31, 2015**

**or**

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

**Commission file number: 001-33635**

**TAXUS CARDIUM PHARMACEUTICALS GROUP INC.**

**(Exact name of registrant as specified in its charter)**

**Delaware**  
**(State of incorporation)**

**27-0075787**  
**(IRS Employer**

**Identification No.)**

**11750 Sorrento Valley Rd, Suite 250**

**San Diego, California 92121**  
**(Address of principal executive offices)**

**(858) 436-1000**  
**(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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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 June 18, 2015, the registrant had 12,775,044 shares of common stock outstanding.

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**EXPLANATORY NOTE**

Unless the context requires otherwise, all references in this report to the Company, Taxus Cardium, Cardium, we, and us refer to Taxus Cardium Pharmaceuticals Group Inc. and, as applicable, our wholly-owned subsidiaries Angionetics Inc., Activation Therapeutics, Inc. (formerly Tissue Repair Company), To Go Brands, Inc. and LifeAgain Insurance Solutions, Inc.

**SPECIAL NOTE ABOUT FORWARD-LOOKING STATEMENTS**

Certain statements in this report, including information incorporated by reference, are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, Section 21E of the Securities Exchange Act of 1934, and the Private Securities Litigation Reform Act of 1995. Forward-looking statements reflect current views about future events and financial performance based on certain assumptions. They include opinions, forecasts, intentions, plans, goals, projections, guidance, expectations, beliefs or other statements that are not statements of historical fact. Words such as may, will, should, could, would, expects, plans, believes, anticipates, intends, estimates, predicts, or projects, or the negative or other variation of such words, and similar expressions may identify a statement as a forward-looking statement. Any statements that refer to projections of our future financial performance, our anticipated growth and trends in our business, our goals, strategies, focus and plans, and other characterizations of future events or circumstances, including statements expressing general optimism about future operating results and the development of our products, are forward-looking statements. Forward-looking statements in this report may include statements about:

our ability to fund operations and business plans, and the timing of any funding or corporate development transactions we may pursue;

planned development pathways and potential commercialization activities or opportunities;

the timing, conduct and outcome of discussions with regulatory agencies, regulatory submissions and clinical trials, including the timing for completion of clinical studies;

our ability to realize revenues, raise sufficient financing, maintain stock price and valuation, and to regain the listing of our common stock on a national exchange;

our beliefs and opinions about the safety and efficacy of our products and product candidates and the anticipated results of our clinical studies and trials;

our ability to enter into acceptable relationships with one or more contract manufacturers or other service providers on which we may depend, and the ability of such contract manufacturers or other service providers to manufacture biologics, devices, or other key products or components, or to provide other services, of an acceptable quality on a timely and cost-effective basis;

our ability to enter into acceptable relationships with one or more development or commercialization partners to advance the commercialization of new products and product candidates and the timing of any product launches;

our growth, expansion and acquisition strategies, the success of such strategies, and the benefits we believe can be derived from such strategies;

our ability to pursue and effectively develop new product opportunities and acquisitions and to obtain value from such product opportunities and acquisitions;

our intellectual property rights and those of others, including actual or potential competitors;

the outcome of litigation matters;

the anticipated activities of our personnel, consultants and collaborators;

expectations concerning our clinical studies or other operations outside the United States;

current and future economic and political conditions;

overall industry and market performance;

the impact of new accounting pronouncements;

management's goals and plans for future operations; and

other assumptions described in this report underlying or relating to any forward-looking statements.

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The forward-looking statements in this report speak only as of the date of this report and caution should be taken not to place undue reliance on any such forward-looking statements. Forward-looking statements are subject to certain events, risks, and uncertainties that may be outside of our control. When considering forward-looking statements, you should carefully review the risks, uncertainties and other cautionary statements in this report as they identify certain important factors that could cause actual results to differ materially from those expressed in or implied by the forward-looking statements. These factors include, among others, the risks described under Item 1A and elsewhere in this report, as well as in other reports and documents we file with the United States Securities and Exchange Commission (the "SEC").

**Table of Contents****TAXUS CARDIUM PHARMACEUTICALS GROUP, INC. AND SUBSIDIARIES****Condensed Consolidated Balance Sheets**

	<b>March 31, 2015</b>	<b>December 31, 2014</b>
	(unaudited)	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 8,866	\$ 216,733
Prepaid expenses and other assets	218,288	202,957
Total current assets	227,154	419,690
Property and equipment, net	13,327	16,414
Investments	300,000	300,000
Other long term assets	9,989	9,989
Total assets	\$ 550,470	\$ 746,093
<b>Liabilities and Stockholders Deficit</b>		
Current liabilities:		
Accounts payable	\$ 1,349,826	\$ 1,204,302
Accrued liabilities	668,231	535,251
Advances from related party - officer	706,284	688,433
Total current liabilities	2,724,341	2,427,986
Total liabilities	2,724,341	2,427,986
Commitments and contingencies		
Stockholders deficit:		
Series A Convertible Preferred stock, \$0.0001 par value; 40,000,000 shares authorized; issued and outstanding 1,176 at March 31, 2015 and December 31, 2014, respectively, with liquidation preferences of \$1,000		
Common stock, \$0.0001 par value; 200,000,000 shares authorized; issued and outstanding 12,775,044 at March 31, 2015 and December 31, 2014, respectively	1,278	1,278
Additional paid-in capital	109,268,430	109,150,983
Accumulated Deficit	(111,443,579)	(110,834,154)
Total stockholders deficit	(2,173,871)	(1,681,893)
Total liabilities and stockholders deficit	\$ 550,470	\$ 746,093

See accompanying notes, which are an integral part of these condensed consolidated financial statements.





Table of Contents**TAXUS CARDIUM PHARMACEUTICALS GROUP INC. AND SUBSIDIARIES****Condensed Consolidated Statements of Operations****(Unaudited)**

	<b>Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
Operating expenses		
Research and development	78,562	243,544
Selling, general and administrative	529,695	1,194,945
Total operating expenses	608,257	1,438,489
Loss from operations	(608,257)	(1,438,489)
Interest expense	1,168	
Net loss	\$ (609,425)	\$ (1,438,489)
Net loss per share Basic and diluted		
Net loss per share Basic and diluted	\$ (0.05)	\$ (0.16)
Weighted average common shares outstanding	12,737,875	9,037,771

See accompanying notes, which are an integral part of these condensed consolidated financial statements.

**Table of Contents****TAXUS CARDIUM PHARMACEUTICALS GROUP, INC. AND SUBSIDIARIES****Condensed Consolidated Statements of Cash Flows**

(unaudited)

	<b>Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
<b>Cash Flows From Operating Activities</b>		
Net loss	\$ (609,425)	\$ (1,438,489)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	3,087	3,556
Provision for obsolete inventory		25,000
Stock based compensation expense	117,447	506,165
Changes in operating assets and liabilities		
Prepaid expenses and other assets	(15,331)	(129,670)
Deposits		60,000
Payables advance from officer	17,851	417,484
Accounts payable	145,524	110,819
Accrued liabilities	132,980	128,638
Net cash used in operating activities	(207,867)	(316,497)
<b>Cash Flows From Financing Activities</b>		
Net Proceeds from sales of preferred and common stock		457,500
Net cash provided by financing activities		457,500
Net increase (decrease) in cash	(207,867)	141,003
Cash and cash equivalents at beginning of period	216,733	22,489
Cash and cash equivalents at end of period	\$ 8,866	\$ 163,492
<b>Supplemental Disclosures of Cash Flow Information:</b>		
Cash paid for interest	\$ 1,168	\$
<b>Non-Cash Activity:</b>		
Warrants issued in settlement of Accounts Payable	\$	\$ 75,000

See accompanying notes, which are an integral part of these condensed consolidated financial statements.

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**TAXUS CARDIUM PHARMACEUTICALS GROUP, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1. Organization and Liquidity**

**Organization**

Taxus Cardium Pharmaceuticals Group, Inc. (the Company, or Cardium, ) was incorporated in Delaware in December 2003. The Company is a regenerative medicine biotechnology company focused on the development of advanced regenerative therapeutics designed to promote the activation and growth of (1) microvascular circulation to enhance perfusion of ischemic cardiac tissue as a potential treatment for heart disease; and (2) granulation tissue as a treatment for chronic non-healing wounds. The Company has a commercial FDA-cleared wound care product, a late clinical stage cardiovascular gene therapy product candidate and corresponding technology platforms as outlined below. The Company also owns LifeAgain Insurance Solutions, Inc., a medical analytics business and holds an investment interest in Healthy Brands Collective, a health products company.

Based on the Company's business strategy of partnering or otherwise monetizing products and product candidates with third party commercialization partners, two subsidiaries have been formed to coordinate the independent monetization and funding activities of its core products and technologies. The Angionetics Inc. subsidiary will focus on the late-stage clinical development and commercialization of the Company's GenerX® angiogenic gene therapy product candidate, and the Activation Therapeutics, Inc. subsidiary will focus on the commercialization of the Excellagen® FDA-cleared wound care product and the joint clinical development of Excellagen product line extensions as an advanced biologic delivery platform for new and innovative wound healing therapeutics.

During 2013, the Company completed the initial product development of LifeAgain, a medical analytics and social media-driven enabled e-commerce platform that is focused on the development, marketing and direct sales of new and innovative survivable risk, multi-year, non-convertible level term life insurance programs and other insurance products, that are currently non-accessible and unaffordable for certain sub-groups of highly motivated buyers considered uninsurable based on traditional underwriting standards by U.S. life insurance companies. The Company released the first product aimed at individuals with prostate cancer in 2013. LifeAgain Insurance Solutions, Inc. is operated as a wholly-owned subsidiary of Cardium.

The Company's business is focused on the acquisition and strategic development of product opportunities or businesses having the potential to address significant unmet medical needs, and having definable pathways to commercialization. The Company intends to consider various corporate development transactions designed to place its product candidates into larger organizations or with partners having existing commercialization, sales and marketing resources, and a need for innovative products. Such transactions could involve the sale, partnering or other monetization of particular product opportunities or businesses.

The Company has yet to generate positive cash flows from operations, and is essentially dependent on debt and equity funding to finance its operations.

**Liquidity and Going Concern**

As of March 31, 2015, the Company had \$8,866 in cash and cash equivalents. Its working capital deficit at March 31, 2015 was approximately \$2,497,187.

The Company anticipates that negative cash flow from operations will continue for the foreseeable future. The Company does not have any unused credit facilities. As long as any shares of the Company's Series A Convertible Preferred Stock are outstanding, the Company has agreed that it will not, without the consent of the holders of two-thirds of the Series A Convertible Preferred Stock, incur indebtedness other than specified Permitted Indebtedness, or incur any liens other than specified Permitted Liens.

The Company intends to secure additional working capital through sales of debt and equity securities to finance our operations, or the sale of certain equity interests in the Company businesses, technology platforms, products or product candidates and licensing agreements covering the marketing and sale of Excellagen and Generx in certain geographic markets and regions.

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On April 4, 2015, the Company entered into a binding term sheet with Shenzhen Qianhai Taxus Industry Capital Management Co., Ltd ( Shenzhen Qianhai Taxus ), as lead investor, to purchase an equity stake in Angionetics Inc., Under the terms of the agreement, Shenzhen Qianhai Taxus agreed to acquire 15% of Angionetics' outstanding common stock for an aggregate purchase price of \$3,000,000, payable in three tranches. As of the date of this report Shenzhen Qianhai Taxus has paid \$600,000 of the financing. See Note 7 Subsequent Events below.

The Company's principal business objectives are to advance the independent monetization and funding activities of its core products and technologies, with the Angionetics Inc. subsidiary being focused on the Generx angiogenic gene therapy product candidate, and the Activation Therapeutics, Inc. subsidiary being focused on the Excellagen FDA-cleared wound care product and the joint clinical development of Excellagen product line extensions as an advanced biologic delivery platform for new and innovative wound healing therapeutics, and/or to complete alternative corporate transactions. If the Company fails to conclude such a transaction in a timely manner or alternatively fails to generate sufficient cash from financing activities, it will not generate sufficient cash flows to cover its operating expenses.

The Company's history of recurring losses and uncertainties as to whether the Company's operations will become profitable raise substantial doubt about its ability to continue as a going concern. The condensed consolidated financial statements contained in this report do not include any adjustments related to the recoverability of assets or classifications of liabilities that might be necessary should the Company be unable to continue as a going concern.

## **Note 2 Summary of Significant Accounting Policies**

### **Basis of Presentation**

The condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial statements and with Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not contain all information and footnotes required by accounting principles generally accepted in the United States of America for annual financial statements. In the opinion of our management, the accompanying unaudited condensed consolidated financial statements contain all the adjustments necessary (consisting only of normal recurring accruals) to present the financial position of the Company as of March 31, 2015 and the results of operations and cash flows for the periods presented. The results of operations for the three months ended March 31, 2015 are not necessarily indicative of the operating results for the full fiscal year or any future period.

These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014. Our accounting policies are described in the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2014, and updated, as necessary, in this Quarterly Report on Form 10-Q.

### **Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The most significant estimates include reserve for inventory, and valuing options and warrants using option pricing models.

### **Fair Value of Financial Instruments**

The carrying amounts of cash and cash equivalents, accounts receivable, inventories, accounts payable, and accrued liabilities approximate fair value due to the short term maturities of these instruments.

### **Principles of Consolidation**

The consolidated financial statements include the accounts of Taxus Cardium Pharmaceuticals Group, Inc. and its consolidated subsidiaries, Angionetics Inc., Activation Therapeutics, Inc. (formerly Tissue Repair Company), To Go Brands, Inc. and LifeAgain Insurance Solutions, Inc.. All significant inter-company transactions and balances have been eliminated in consolidation.

### **Preferred Stock**

The Company applies the accounting standards for distinguishing liabilities from equity when determining the classification and measurement of its preferred stock. Shares that are subject to mandatory redemption (if any) are classified as liability instruments

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and are measured at fair value. The Company classifies conditionally redeemable preferred shares, which includes preferred shares that feature redemption rights that are either within the control of the holder or subject to redemption upon the occurrence of uncertain events not solely within the Company's control, as temporary equity. At all other times, preferred shares are classified as stockholders' equity.

## **Research and Development**

In accordance with ASC Topic 730 (FASB Accounting Standard Codification) research and development costs are expensed as incurred. Research and development expenses consist of purchased technology, purchased research and development rights and outside services for research and development activities associated with product development. In accordance with ASC Topic 730, the cost to purchase such technology and research and development rights are required to be charged to expense if there is currently no alternative future use for this technology and, therefore, no separate economic value.

## **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 carryforwards. 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 on deferred tax assets and liabilities of a change in tax rates is recognized in operations in the period enacted. A valuation allowance is provided when it is more likely than not that a portion or all of a deferred tax asset will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income and the reversal of deferred tax liabilities during the period in which related temporary differences become deductible. The benefit of tax positions taken or expected to be taken in the Company's income tax returns are recognized in the consolidated financial statements if such positions are more likely than not to be sustained upon examination.

## **Common Stock Purchase Warrants**

The Company accounts for common stock purchase warrants issued in connection with capital financing transactions in accordance with the provisions of ASC Topic 815. Based upon the provisions of ASC Topic 815, the Company classifies as equity any contracts that (i) require physical settlement or net-share settlement or (ii) give the Company a choice of net-cash settlement or settlement in its own shares (physical settlement or net-share settlement). The Company classifies as assets or liabilities any contracts that (i) require net-cash settlement (including a requirement to net-cash settle the contract if an event occurs and if that event is outside the control of the Company) or (ii) gives the counterparty a choice of net-cash settlement or settlement in shares (physical settlement or net-share settlement).

## **Loss Per Common Share**

The Company computes loss per share, in accordance with ASC Topic 260 which requires dual presentation of basic and diluted earnings per share.

Basic income or loss per common share is computed by dividing net income or loss by the weighted average number of common shares outstanding during the period. Diluted income or loss per common share is computed by dividing net income or loss by the weighted average number of common shares outstanding, plus the issuance of common shares, if dilutive, that could result from the exercise of outstanding stock options and warrants.

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As of March 31, 2015, potentially dilutive securities consist of outstanding stock options and warrants to acquire 3,793,492 shares of our common stock. As of March 31, 2014, potentially dilutive securities consisted of outstanding stock options and warrants to acquire 2,500,165 shares of our common stock. These potentially dilutive securities were not included in the calculation of loss per common share for the three months ended March 31, 2015 or 2014 because their effect would be anti-dilutive.



**Table of Contents****Stock-Based Compensation**

Stock-based compensation costs are recognized on a straight-line basis over the requisite service period of the award, which is generally the vesting term of the award.

Total stock-based compensation expense included in the condensed consolidated statements of operations was allocated to research and development and general and administrative expenses as follows:

	<b>For the Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
Research and development	\$	\$ 51,409
General and administrative	117,447	454,756
<b>Total stock-based compensation</b>	<b>\$ 117,447</b>	<b>\$ 506,165</b>

**Investments**

The Company periodically reviews the carrying amount of its investment in Cell-nique to determine whether the value is impaired or a write down may be necessary for an other than temporary decline in value. During the three months ended March 31, 2015 no impairment was recorded.

**Recent Accounting Pronouncements**

Management continually evaluates the potential impact, if any, of all recent accounting pronouncements on our condensed consolidated financial statements or related disclosures and, if significant, makes the appropriate disclosures required by such new accounting pronouncements.

**Note 3 Accrued Liabilities**

Accrued Liabilities consisted of the following:

	<b>March 31, 2015</b>	<b>December 31, 2014</b>
Payroll and benefits	\$ 535,992	\$ 465,512
Technology Fees	62,500	
Other	69,739	69,739
<b>Total</b>	<b>\$ 668,231</b>	<b>\$ 535,251</b>

**Table of Contents****Note 4 Advances From Related Party - Officer**

Officers of the Company occasionally incur or advance expenses on behalf of the Company, which are subsequently reimbursed to the officers along with any associated costs. As of March 31, 2015 and December 31, 2014, approximately \$706,284 and \$688,433, respectively, in Company expenses incurred in the ordinary course of business that have been paid by or with cash advanced by the Company's Chief Executive Officer.

**Note 5 Stockholders Equity****Stock Options and Other Equity Compensation Plans**

The Company has an equity incentive plan that was established in 2005 under which 283,058 shares of the Company's common stock have been reserved for issuance to employees, non-employee directors and consultants of the Company.

At March 31, 2015 the following shares were outstanding and available for future issuance under the option plan:

<b>Plan</b>	<b>Shares Outstanding</b>	<b>Shares Available for Issuance</b>
2005 Equity Incentive Plan	108,250	174,808

On February 28, 2014, outside of the 2005 Equity Incentive Plan, the Company issued 1,457,100 common stock warrants to directors, officers and chief medical advisor. The warrants were approved by the Board of Directors, have a ten year term and an exercise price of \$0.80 per share, which represented a 57% premium to the closing stock price on the date of issuance.

On March 23, 2015, outside of the 2005 Equity Incentive Plan, the Company issued 1,125,000 common stock warrants to directors, officers and chief medical advisor. The warrants were approved by the Board of Directors, have a ten year term and an exercise price of \$0.60 per share, which represented a 216% premium to the closing stock price on the date of issuance. The warrants had a fair value of \$0.10 per share and vested immediately.

On March 23, 2015 the Company issued 10,000 non-qualified stock options to directors. The options were approved by the Board of Directors, have a seven year term and an exercise price of \$0.19 per share, which equaled the closing stock price on the date of issuance.

The following is a summary of stock option and warrant activity under the Company's equity incentive plan and warrants issued outside of the plan to employees and consultants, during the three months ended March 31, 2015:

	<b>Weighted</b>	<b>Weighted</b>
	<b>Average</b>	<b>Average</b>
	<b>Exercise</b>	<b>Remaining</b>
	<b>Price</b>	<b>Contractual</b>
<b>Number of</b>		<b>Life</b>
<b>Options or</b>		<b>(in</b>
<b>Warrants</b>		<b>years)</b>

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Balance outstanding, December 31, 2014	1,914,906	\$ 2.44	8.74
Granted	1,135,000	0.60	9.98
Exercised			
Cancelled			
Cancelled (unvested)			
Expired (vested)	(5,750)	14.80	
Balance outstanding, March 31, 2015	3,044,156	\$ 1.73	9.05
Balance exercisable, March 31, 2015	3,032,656	\$ 1.74	9.06

As of March 31, 2015 there was no intrinsic value to the outstanding and exercisable options and warrants.

**Warrants**

The following table summarizes warrant activity issued in connection with financing transactions for the three months ended March 31, 2015:

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	Number of Warrants	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)
Balance outstanding, December 31, 2014	873,336	\$ 17.79	1.06
Warrants issued			
Warrants exercised			
Warrants expired	(112,500)	35.40	
Warrants cancelled			
Balance outstanding, March 31, 2015	760,836	\$ 15.19	.94
Warrants exercisable at March 31, 2015	760,836	\$ 15.19	.94

As of March 31, 2015 there was no intrinsic value to the outstanding and exercisable warrants.

**Note 6 Commitments and contingencies**

The Company in the course of its business, is routinely involved in proceedings such as disputes involving goods or services provided by various third parties to Cardium or its subsidiaries, which it does not consider likely to be material to the technology it develops or licenses, or the products it develops for commercialization, but which can nevertheless result in costs and diversions of resources to pursue and resolve. For example, in October 2014 the Company received a complaint filed by BioRASI LLC in Broward County, Florida, seeking payments of approximately \$0.5 million allegedly owed for services that BioRASI provided in connection with the Company's clinical trial conducted in the Russian Federation. The Company is defending the action and has filed counterclaims.

**Note 7 Subsequent Events**

The Company has evaluated events that occurred subsequent to March 31, 2015 and through the date the condensed consolidated financial statements were issued.

*Resignation of Chief Financial Officer*

On April 3, 2015, Dennis Mulroy resigned as the Chief Financial Officer of Taxus Cardium Pharmaceuticals Group Inc. and from all other offices with the Company. Mr. Mulroy resigned to pursue other opportunities and his departure was not due to any dispute or disagreement with the Company. He did not receive any severance payments under his employment agreement in connection with his departure.

*Co-Development and Distribution Agreement with Dr. Reddy's Laboratories Ltd.*

On April 6, 2015, the Company entered into a term sheet with Dr. Reddy's Laboratories Ltd. (NYSE: RDY) covering the co-development, marketing and sales of the Generx [Ad5FGF-4] angiogenic microvascular gene therapy Phase 3 product candidate for patients with refractory angina and myocardial ischemia due to cardiac microvascular insufficiency. The terms sheet outlines the principle agreements between the parties and is binding, but is expected to be superseded by a definitive agreement with more detailed terms.

The term sheet grants Dr. Reddy's Laboratories an exclusive license to market and sell Generx in Russia, the Commonwealth of Independent States (CIS), Venezuela, Vietnam and Myanmar (the Licensed Territories) for a period of ten years with two five-year renewal options. Dr. Reddy's Laboratories' Russian-based business unit currently markets and sells prescription products in Russia. The term sheet grants Dr. Reddy's Laboratories a right of first negotiation for the license rights to market and sell Generx in up to 32 other countries in Latin America and the Association of Southeast Asian Nations. The Company retains full commercialization rights for North America, Europe, Japan, China, the Middle East, and Africa.

As co-development partner, Dr. Reddy's Laboratories will assist with physician and hospital relationships as well as patient recruitment to accelerate completion of international Phase 3 ASPIRE clinical study in Russia. Dr. Reddy's Laboratories' Russian-based business unit markets and sells prescription products through its team of medical representatives and managers who promote the products to physicians across Russia. It has also agreed to assist with product registrations and regulatory compliance with local country health authorities in other jurisdictions in the Licensed Territories. Upon registration of Generx® in Russia, Taxus Cardium and Dr. Reddy's Laboratories have agreed to share costs for a planned Phase 4 post-marketing clinical study, intended to expand the medical indications for which the product can be used.

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The term sheet requires Dr. Reddy's Laboratories to pay upfront licensing fees on execution of the definitive agreement and upon registration of the Generx product in Russia. The Company will retain control over the manufacturing of Generx and will supply it to Dr. Reddy's Laboratories on a cost-plus basis. Dr. Reddy's will pay royalties on net sales of Generx, with the percentage varying based on the degree of market penetration for the product in the relevant territory.

### *Formation of Angionetics Inc.*

In April 2015, the Company formed a new subsidiary Angionetics Inc., a Delaware corporation, for the purpose of continuing the work of the Company's Cardium Therapeutics business. Angionetics Inc. is focused on the Phase 3 clinical development and commercialization of Generex, the Company's angiogenic gene therapy product candidate for the treatment of refractory angina and myocardial ischemia due to cardiac microvascular insufficiency.

### *Angionetics Financing Agreement*

On April 8, 2015, the Company entered into a binding term sheet with Shenzhen Qianhai Taxus Industry Capital Management Co., Ltd (Shenzhen Qianhai Taxus), as lead investor, to purchase an equity stake in Angionetics Inc.

Under the term sheet, Shenzhen Qianhai Taxus agreed to acquire 15% of Angionetics's outstanding common stock, from the Company, for an aggregate purchase price of \$3,000,000 or 600,000 shares at \$5 per share, payable in three tranches. As of the date of this report Shenzhen Qianhai Taxus has paid \$600,000 of the financing. On completion of the purchase, the Company has agreed to grant Shenzhen Qianhai Taxus a right of first negotiation for exclusive license agreements for certain Asian markets to register, market and sell the Generx product candidate, Excellagen, and LifeAgain.

The agreement contemplates that this initial funding is a bridge investment to a separate larger financing to be conducted by Angionetics, Inc., including a potential registration and public offering of securities. The terms provide for the Company to gross up Shenzhen Qianhai Taxus's shares to equate to a 15% interest in Angionetics, Inc. following any such public offering. It also provides for certain registration rights for the shares purchased by Shenzhen Qianhai Taxus.

Shenzhen Qianhai Taxus is an affiliate of Shanxi Taxus Pharmaceuticals Co., Ltd. which holds approximately 27.5% of Cardium's outstanding common stock as a result of a Stock Purchase Agreement dated February 21, 2014. In connection with that transaction, the Company granted Shanxi Taxus Pharmaceuticals Co., Ltd. the right to appoint two members to our Board of Directors. Mr. Jiayue Jhang, one of the appointed members of our Board of Directors who serves as our Chairman, is the Chairman of Shenzhen Qianhai Taxus and Shanxi Taxus Pharmaceuticals Co., Ltd.

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

*The following discussion and analysis is intended to help you understand our financial condition and results of operations for the three month period ended March 31, 2015. You should read the following discussion and analysis together with our unaudited condensed consolidated financial statements and the notes to the condensed consolidated financial statements included under Item 1 in this report, as well as the risk factors and other information included Part II, Item 1A, in our annual report on Form 10-K for our year ended December 31, 2014 (our 2014 Annual Report), and other reports and documents we file with the United States Securities and Exchange Commission (SEC). Our future financial condition and results of operations will vary from our historical financial condition and results of operations described below.*

**Overview**

*The following overview does not address all of the matters covered in the other sections of this Item 2 or other items in this report or contain all of the information that may be important to our stockholders or the investing public. This overview should be read in conjunction with the other sections of this Item 2 and this report.*

We are a regenerative medicine biotechnology company focused on the development of advanced regenerative therapeutics designed to promote the activation and growth of (1) microvascular circulation to enhance perfusion of ischemic cardiac tissue as a potential treatment for heart disease; and (2) granulation tissue as a treatment for chronic non-healing wounds. We have a commercial FDA-cleared wound care product, a late clinical stage cardiovascular gene therapy product candidate and corresponding technology platforms as outlined below. We also own LifeAgain Insurance Solutions, Inc., an advanced medical data analytics business and hold an investment interest in Healthy Brands Collective, a health products company.

Our business is focused on the acquisition and strategic development of product opportunities or businesses having the potential to address significant unmet medical needs, and having definable pathways to commercialization. Our business model is designed to create a portfolio of opportunities for success, avoiding reliance on any single technology platform or product type. We focus on late-stage product development bridging the critical gap between promising new technologies and product opportunities that are ready for commercialization. As our product opportunities and businesses are advanced and corresponding valuations established, we intend to consider various corporate development transactions designed to place our product candidates into larger organizations or with partners having existing commercialization, sales and marketing resources, and a need for innovative products. Such transactions could involve the sale, partnering or other monetization of particular product opportunities or businesses.

Based on our business strategy of partnering or otherwise monetizing products and product candidates with third party commercialization partners, two business units have been formed to coordinate the independent monetization and funding activities of our core products and technologies. The Angionetics business unit will focus on the late-stage clinical development and commercialization of the Company's Generx angiogenic gene therapy product candidate, and the Activation Therapeutics unit will focus on the commercialization of the Excellagen FDA-cleared wound care product and the joint clinical development of Excellagen product line extensions as an advanced biologic delivery platform for new and innovative wound healing therapeutics.

Consistent with our overall business strategy, as our product opportunities and businesses are advanced and corresponding valuations established, we intend to consider various corporate development transactions designed to place our product candidates into larger organizations or with partners having existing commercialization, sales and marketing resources, and a need for innovative products. Such transactions could involve the sale, partnering or other monetization of particular product opportunities or businesses.

Our principal business objective is to complete an additional strategic licensing agreement to advance sales of the Excellagen product family and/or another corporate transaction in order to fund our operations to further advance the Excellagen platform and complete the development and commercialization of Generx. If we fail to enter into an additional strategic licensing arrangement or generate sufficient product sales, we will not generate sufficient cash flows to cover our operating expenses.

### **Recent Developments**

We continue efforts to advance the clinical and commercial development of Generx, continued the commercialization of Excellagen, sold To Go Brands, Inc. and completed development of our first LifeAgain product offering. We continue to support the clinical advancement of our Generx angiogenic therapy product candidate, continued activities to commercialize our Excellagen<sup>®</sup> dermal matrix wound care product, and entered into a strategic cooperation agreement and financing arrangement with Shanxi Taxus Pharmaceuticals Ltd. a strategic investor based in the People's Republic of China (PRC) and affiliated with Shenzhen Forntsea Taxus Industry Capital Management (Shanxi Taxus).



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For 2015, we plan to focus on achieving key milestones with the potential to offer significant valuation inflection points of our core biotechnology assets, while evaluating option for sales or other monetizations of our non-core investments. The key elements of our business strategy include:

Advance our ASPIRE international Phase 3 registration clinical study for Generx<sup>®</sup> which is currently underway in the Russia Federation. Upon clinical success, the Company plans to meet with the U.S. FDA to seek harmonization between the international ASPIRE study with our FDA-cleared Generx Phase 3 clinical study and advance U.S.-based clinical studies supported by a strategic partner;

Strategically partner and monetize our FDA-cleared pharmaceutically formulated collagen commercial wound care product Excellagen<sup>®</sup>, for selected U.S.-based vertical market channels and leverage Excellagen's advanced regenerative medicine delivery platform by identifying innovative product extensions for tissue regeneration based on stem cells, biologics, peptides and/or small molecule drugs for future development and commercialization with one or more strategic partners. The Company has continued to pursue a CE mark certification for Excellagen, has fully responded to all information requested by the notified body, and looks forward to completing this process;

Advance the commercialization of our LifeAgain Insurance Solutions advanced medical analytics business, which is focused on the development, marketing and sale of survivable risk term life insurance for cancer survivors or others with medical conditions who are currently considered uninsurable based on traditional underwriting standards;

Monetize our equity stake in Cardium's Healthy Brands Collective investment. We acquired this investment through the sale of our To Go Brands<sup>®</sup> health sciences business through an asset exchange for a preferred equity position in Healthy Brands. Healthy Brands has been making significant acquisitions and has previously reported plans to move forward as a public company as its current businesses advance and growth through further acquisition;

Leverage our cooperation agreement with Shanxi Taxus Pharmaceuticals Ltd. to distribute our Excellagen product and Generx product candidate in China, and distribute Shanxi Taxus Pharmaceuticals Ltd.'s oncology related products in the United States; and

Deploy capital strategically to develop our portfolio of product candidates and create shareholder value.

Recent highlights include the following:

### ***Generx Development***

Angionetics Inc. is a leader in the field of cardiovascular gene therapy. Generx (alferminogene tadenovec), Angionetics' Phase 3 clinical study product candidate, is a transformative disease-modifying angiogenic gene therapy growth factor therapeutic that is being developed to promote the growth of cardiac microvascular circulation to enhance perfusion (blood flow) for patients with advanced coronary artery disease.

Generx represents a new class of therapeutic designed to address a large and unmet medical need among patients with heart disease. Generx is targeted for the potential treatment of patients with Cardiac Microvascular Insufficiency or CMI due to advanced coronary artery disease. CMI is a principal cause of microvascular angina or coronary microvascular dysfunction, a well-recognized clinical condition characterized by functional and structural abnormalities of the microvasculature (smaller blood vessels of the heart), which leads to myocardial ischemia and angina pectoris in the absence of large artery/obstructive disease. Generx is designed to be a one-time non-surgical treatment that may help many of such patients by directly addressing their underlying microvascular angina, as well as providing a non-surgical option for patients in whom coronary intervention is either contraindicated or not desirable. Observed results from our Phase 2 clinical trial demonstrated effects that were similar in magnitude to those reported in the medical literature for patients undergoing surgical revascularization procedures such as cardiac by-pass surgery, or angioplasty and stenting, as measured by improvements of reversible perfusion defects of comparable size following such procedures.

CMI frequently cannot be addressed using traditional surgical approaches such as coronary artery bypass graft (CABG) or percutaneous coronary intervention (PCI, i.e. angioplasty and stents). In particular, many patients have coronary artery disease that is not limited or localized to large vessels, continue to experience angina after CABG or PCI, and/or are not suitable candidates for surgical interventions. It is estimated that 12% of patients with obstructive coronary artery disease continue to experience angina because their underlying medical condition is not fully addressed or cannot be resolved by chronic drugs or surgical/mechanical interventions. In addition, a recent meta-analysis study reported that approximately 20% of patients who have a coronary angiography due to ongoing angina do not have obvious large vessel disease, a condition generally referred to as Cardiac Syndrome X, many of whom are presumed to have coronary disease that is diffuse and/or affects smaller vessels within the heart that are not reachable through surgical intervention.

Myocardial ischemia, including that associated with CMI, can be effectively diagnosed and its potential treatment quantified using SPECT imaging (Single-photon emission computed tomography). SPECT has both diagnostic and prognostic value in the management of patients with coronary artery disease because it identifies and quantitatively measures regions of the heart muscle that

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are at greatest risk during periods of ischemia, such as that brought on during exertion. We believe that other catheter-based diagnostic techniques, including catheter-based imaging diagnostics to measure fractional flow reserve and washout collaterometry, will be further developed, which may enhance and broaden clinical adoption of non-surgical Generx angiogenesis therapy following initial Generx registration.

Based on the data from four completed clinical studies, Generx appears to be safe and well tolerated and capable of improving myocardial perfusion, as measured by validated diagnostic SPECT imaging, in patients with reversible perfusion defect size of greater than 9%. Generx also improved exercise tolerance time, based on an analysis of pre-specified patient sub-groups with stable angina pectoris due to advanced coronary artery disease who were unresponsive to optimal medical therapy and are not considered suitable candidates for traditional coronary artery by-pass surgery, angioplasty and/or stenting.

Upon completion of the current ASPIRE Phase 3 international clinical study, data from the our five Generx clinical studies will represent one of the largest clinical and regulatory dossiers for a cardiac gene therapy product candidate in the world covering the treatment of over 750 patients in the United States, Canada, South America Western Europe and the Russian Federation at over 100 medical centers.

Developments with respect to Generx include:

Announced positive interim Phase 3 data from Cardium's international ASPIRE clinical study showing apparently significant efficacy of Generx angiogenic gene therapy for myocardial ischemia due to coronary artery disease. The interim results demonstrated statistically significant improvement, as measured by changes after eight weeks in the reversible perfusion defect size (RPDS), determined using rest/stress single-photon emission computed tomography (SPECT) imaging. This improvement in RPDS was consistent with the RPDS improvement previously reported in the Generx AGENT Phase 2 clinical study, and of a magnitude similar to that observed following large vessel revascularization procedures, such as by-pass surgery or percutaneous coronary intervention.

Presented the positive interim Phase 3 primary efficacy data and an overview of the Generx clinical development program at the 2014 Biotechnology Industry Organization International Convention, and presented corporate development activities and plans at the annual 2014 Marcum Microcap Conference, covering the Company's strategic focus on its core advanced regenerative therapeutics and technology platforms.

Reported publication of a scientific article, entitled "Identifying and Overcoming Obstacles in Angiogenic Gene Therapy for Myocardial Ischemia," by Gabor M. Rubanyi, M.D., Ph.D., Cardium's Chief Scientific Officer, in the August 2014 issue of the *Journal of Cardiovascular Pharmacology*. The publication outlines advances in scientific and medical knowledge pioneered by Cardium and others in therapeutic angiogenesis for myocardial ischemia, including mechanistic and biological insights, optimization of clinical trial design, and selection of target patient populations and meaningful efficacy endpoints. The publication also reports, for the first time, the results of studies performed by Cardium researchers and collaborators, demonstrating a synergistic interaction between Generx-expressed fibroblast growth factor-4 (FGF-4) and vascular endothelial growth factor (VEGF) in the promotion of neovessel formation, with evidence that FGF controls angiogenesis upstream of VEGF.

Completed the pilot phase of our Generx ASPIRE Phase 3 / registration study, a 100-patient, randomized and controlled multi-center study at leading cardiology centers in the Russian Federation for patients with myocardial ischemia due to coronary artery disease, and engaged a new clinical research organization to support continuation of the study in coordination with a planned strategic partner. The ASPIRE study is designed to further evaluate the safety and effectiveness of Cardium's Generx DNA-based angiogenic product candidate, which has already been tested in clinical studies involving 650 patients at more than one hundred medical centers in the U.S., Europe and elsewhere. The efficacy of Generx is being quantitatively assessed using rest and stress SPECT (Single-Photon Emission Computed Tomography) myocardial imaging to measure improvements in microvascular cardiac perfusion following a one-time, non-surgical, catheter-based administration of Generx. The Cedars-Sinai Medical Center Nuclear Cardiology Core Laboratory in Los Angeles, California, is the central core lab for the study and is responsible for the analysis of SPECT myocardial imaging data electronically transmitted from the Russian medical centers participating in the ASPIRE study. The Russian Health Authority has assigned Generx the therapeutic drug trade name of Cardionovo for marketing and sales in Russia.

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Published important Generx findings in the peer-reviewed journal *Human Gene Therapy Methods* that demonstrate that Cardium's innovative technique employing transient cardiac ischemia can be used to dramatically enhance gene delivery and transfection efficiency after one-time intracoronary administration of adenovector in mammalian hearts. These findings have been incorporated into the treatment protocols of the Generx ASPIRE Phase 3 study.

### ***Commercialization of Excellagen***

Excellagen is an FDA-cleared, pharmaceutically-formulated acellular biological modulator that has been engineered to activate and promote wound healing through the growth of granulation tissue in chronic non-healing diabetic foot, pressure and venous ulcers, as well as other dermal wounds (including traumatic and surgical wounds). We believe that Excellagen is a cost-effective, easy to use professional product that has now been classified for reimbursement purposes by the U.S. Centers for Medicare and Medicaid Services as a unique skin substitute - a designation which is consistent with other forms of skin substitutes including living skin equivalents Dermagraft<sup>®</sup> and Apligraf<sup>®</sup> and human dermal and amnion/placental tissue-based products including Graftjacket<sup>®</sup> and EpiFix<sup>®</sup>.

Excellagen is prepared as a sterile professional-use syringe, containing a physiologically formulated homogenate of purified atelopeptide bovine dermal collagen (Type I) in its native 3-dimensional fibrillar configuration. Excellagen is designed to provide a structural scaffold for chemotaxis, cellular adhesion, migration and proliferation to promote wound healing. Company-funded research and published scientific literature also support Excellagen's capability to activate blood platelets to release growth factors, including Platelet-Derived Growth Factor (PDGF), an important endogenous wound healing mediator.

In a U.S.-based, multi-center, randomized and controlled clinical study (the Matrix study), a single protocol specified application of Excellagen was found to accelerate the rate of tissue granulation at one week by 204% compared to standard of care (p=0.018), and this accelerated healing response continued for two weeks (104%; p=0.032). While Excellagen is FDA-cleared for use in a broad array of dermal wounds, initial clinical focus has been on the treatment of chronic non-healing diabetic foot, pressure and venous ulcers. In December 2013, the Centers for Medicare and Medicaid Services (CMS) made a final determination to assign Excellagen a unique, product-specific Q code, classifying Excellagen as a skin substitute, after reviewing our HCPCS Level II Code Modification Request and subsequent supporting information for Excellagen as a wound care product indicated for the treatment of hard to heal wounds such as diabetic foot ulcers and pressure ulcers as well as other dermal wounds. This new reimbursement code took effect January 1, 2014, although a reimbursement rate has not yet been determined.

In addition to its application for dermal wounds, Excellagen's pharmaceutically formulated collagen has been engineered to serve as a biologics delivery platform, potentially enabling multiple device, tissue scaffolding and therapeutic product extensions for tissue regeneration based on stem cells, biologics, peptides and small molecule drugs. This technological attribute of Excellagen is expected to enable product extensions, which could be co-developed for commercialization with a variety of different strategic partners.

Consistent with our business strategy, Excellagen has been substantially credentialized and we are now seeking strategic partners to market and sell Excellagen in the United States and elsewhere through multiple marketing channels. The Company has continued to pursue a CE mark certification for Excellagen. Developments with respect to Excellagen include:

Excellagen flowable dermal matrix in combination with Orbsen Therapeutics' mesenchymal stromal stem cell therapy Cyndacel-M has been selected for clinical evaluation in a Phase 1b safety study for the potential

treatment of chronic diabetic wounds to be funded by the European Union under EU Framework 7 (FP7). The project, known by the acronym REDDSTAR (Repair of Diabetic Damage by Stromal Cell Administration), is being coordinated by Professor Timothy O'Brien, Dean of Medicine and Director of Ireland's Regenerative Medicine Institute (REMEDI) at National University of Ireland Galway (NUI). The REDDSTAR preclinical studies evaluated the use of Excellagen<sup>®</sup> and an alternative collagen-based product to promote the maintenance of stem cell viability. The combination of Cyndacel-M and Excellagen improved wound closure and neo-vascularization in a diabetic dermal wound healing model. Based on those results, Excellagen was selected to be used with Cyndacel-M in a human clinical study.

Continued activities relating to the strategic partnering process and monetization Excellagen flowable dermal matrix wound care product for select U.S.-based vertical market channels and geographic markets. Activities have also continued to leverage Excellagen as an advanced

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regenerative medicine delivery platform by identifying innovative potential future product extensions for tissue regeneration based on stem cells, biologics, peptides and/or small molecule drugs.

Consistent with the Company's long-term business strategy we do not plan to build inventory or establish an internal marketing and sales force to directly support the commercialization of Excellagen. We are continuing to credentialize Excellagen in preparation for the completion of strategic partnerships for various vertical channel market opportunities or asset monetization. We have continued to pursue a CE mark certification for Excellagen and look forward to completing this process.

### ***Cooperation Agreement with Shanxi Taxus Pharmaceuticals Ltd.***

On February 28, 2014, we entered into a collaboration and financing arrangement with Shanxi Taxus, a strategic corporate investor based in China, pursuant to which the parties agreed to collaborate on the advancement of the Company's product opportunities in China, and the investor's product opportunities in the United States. The arrangement is reflected in two definitive agreements, each dated as of February 21, 2014, which were concluded and delivered on February 28, 2014, in connection with the first tranche of funding under the financing arrangement.

Under the terms of a collaboration agreement, Shanxi Taxus agreed to apply commercially reasonable efforts to assist Cardium to develop and refine a plan or plans pursuant to which Cardium products, particularly our Generx and Excellagen product opportunities, could be commercialized in China; and we agreed, upon request, to apply commercially reasonable efforts to assist Shanxi Taxus to develop and refine a plan or plans pursuant to which Shanxi Taxus oncology-related products and product opportunities could be commercialized in the United States. As part of the agreement we changed our name to Taxus Cardium Pharmaceuticals Group, Inc. In addition, we agreed to grant Shanxi Taxus certain board rights based on the level of its financing pursuant to the financing arrangement. Cardium and Shanxi Taxus are moving forward with plans to explore the commercialization of Cardium's advanced regenerative medicine therapeutic products for the emerging and rapidly growing advanced healthcare market in China. Mr. Jiayue Zhang, who is the Chairman of Shanxi Taxus, and an additional individual with U.S. corporate and financial experience, have now joined Cardium's Board of Directors.

### ***Cooperation Agreement with Dr. Reddy Laboratories***

On April 6, 2015, the Company entered into a term sheet with Dr. Reddy's Laboratories Ltd. (NYSE: RDY) covering the co-development, marketing and sales of the Generx [Ad5FGF-4] angiogenic microvascular gene therapy Phase 3 product candidate for patients with refractory angina and myocardial ischemia due to cardiac microvascular insufficiency. The terms sheet outlines the principle agreements between the parties and is binding, but is expected to be superseded by a definitive agreement with more detailed terms.

The term sheet grants Dr. Reddy's Laboratories an exclusive license to market and sell Generx in Russia, the Commonwealth of Independent States (CIS), Venezuela, Vietnam and Myanmar (the Licensed Territories) for a period of ten years with two five-year renewal options. Dr. Reddy's Laboratories Russian-based business unit currently markets and sells prescription products in Russia. The term sheet grants Dr. Reddy's Laboratories a right of first negotiation for the license rights to market and sell Generx in up to 32 other countries in Latin America and the Association of Southeast Asian Nations. The Company retains full commercialization rights for North America, Europe, Japan, China, the Middle East, and Africa.

As co-development partner, Dr. Reddy's Laboratories will assist with physician and hospital relationships as well as patient recruitment to accelerate completion of international Phase 3 ASPIRE clinical study in Russia. Dr. Reddy's Laboratories Russian-based business unit markets and sells prescription products through its team of medical representatives and managers who promote the products to physicians across Russia. It has also agreed to assist with

product registrations and regulatory compliance with local



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country health authorities in other jurisdictions in the Licensed Territories. Upon registration of Generx® in Russia, Taxus Cardium and Dr. Reddy's Laboratories have agreed to share costs for a planned Phase 4 post-marketing clinical study, intended to expand the medical indications for which the product can be used.

The term sheet requires Dr. Reddy's Laboratories to pay upfront licensing fees on execution of the definitive agreement and upon registration of the Generx product in Russia. The Company will retain control over the manufacturing of Generx and will supply it to Dr. Reddy's Laboratories on a cost-plus basis. Dr. Reddy's will pay royalties on net sales of Generx, with the percentage varying based on the degree of market penetration for the product in the relevant territory.

## **Critical Accounting Policies and Estimates**

Our consolidated financial statements included under Item 1 in this report have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The preparation of our financial statements in accordance with GAAP requires that we make estimates and assumptions that affect the amounts reported in our financial statements and their accompanying notes.

We have identified certain policies that we believe are important to the portrayal of our financial condition and results of operations, including obsolescence reserve for inventory, valuation of equity instruments, and impairment of long-lived assets. These significant accounting estimates or assumptions bear the risk of change due to the fact that there are uncertainties attached to these estimates or assumptions, and certain estimates or assumptions are difficult to measure or value. We base our estimates on our historical experience, industry standards, and various other assumptions that we believe are reasonable under the circumstances. Actual results could differ from these estimates under different assumptions or conditions. An adverse effect on our financial condition, changes in financial condition, and results of operations could occur if circumstances change that alter the various assumptions or conditions used in such estimates or assumptions.

We record reserves for inventories that are obsolete or exceed anticipated demand or carried at an amount that exceeds management's estimate of net realizable value. In establishing such reserves, management considers historical sales of identical and/or similar goods, product development plans and expected market demand.

We calculate the value of equity compensation expense associated with the issuance of warrants and stock options using the Binomial and Black-Scholes Option Model. Determining the appropriate fair value model and calculating the fair value of equity based payment awards requires the input of a number of subjective assumptions including the expected stock volatility, the risk free interest rate, the option's expected life, the dividend yield on the underlying stock. The assumptions used in calculating the fair value of equity based payment awards represent management's best estimates, which involve inherent uncertainties and the application of management's judgment. As a result, if factors change and the Company uses different assumptions, equity based compensation could be materially different in the future. In addition, the Company is required to estimate the expected forfeiture rate and recognize expense only for those shares expected to vest. If actual forfeiture rate is materially different from the estimates, the equity based compensation could be significantly different from what the Company has recorded in the current period. If we were to undervalue our derivative liabilities or stock option compensation expense we would understate the expense recognized in our consolidated statements of operation. Conversely if we were to overvalue our warrant and stock option compensation expenses we would overstate the expense recognized in our consolidated statements of operations.

We periodically review the carrying amount of our long lived assets to determine whether the value is impaired or a write down may be necessary for an other than temporary decline in value. During the three months ended March 31,

2015 no impairment was recorded.

Our other significant accounting policies are described in the notes to our financial statements.

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### **Results of Operations**

#### ***For the Three Months Ended March 31, 2015 compared to the Three Months Ended March 31, 2014***

Research and development expenses for the three months ended March 31, 2015 were \$78,562 compared to \$243,544 for the same period in 2014. The decrease of \$164,982 was the result of decreased costs related to our Generx Aspire study, a reduction in personnel costs and related stock compensation.

Selling, general and administrative expenses for the three months ended March 31, 2015 were \$529,695 compared to \$1,194,945 for the three months ended March 31, 2014. The decrease of \$665,250 was the result of a number of cash savings initiatives implemented during the second half of 2014 including an overall reduction in personnel costs of 54% as a result of headcount and salary reductions and related stock compensation.

Interest expense for the three months ended March 31, 2015 was \$1,168 and represents credit card related finance charges.

Net loss for the three months ended March 31, 2015 was \$609,425 (including \$117,447 noncash stock based compensation expense included in selling, general and administrative expense) compared to a net loss of \$1,438,489 (including \$506,165 of noncash stock based compensation expense, \$454,756 included in selling, general and administrative expense and \$51,409 included in research and development expense) for the same period of 2014. The decrease in net loss was primarily a result of the decrease in operating expenses described above.

### **Liquidity and Capital Resources**

As of March 31, 2015, we had \$8,866 in cash and cash equivalents. Our working capital deficit at March 31, 2015 was \$2,497,187.

Net cash used in operating activities was \$207,867 for the three months ended March 31, 2015 compared to \$316,497 for the three months ended March 31, 2014. The decrease of \$108,630 in net cash used in operating activities was due primarily to spending and headcount and salary reductions in the second half of 2014 and early 2015.

We had no net cash used in investing activities for the three months ended March 31, 2015 and 2014. At March 31, 2015 we did not have any significant capital expenditure requirements.

Net cash provided by financing activities was \$0 for the three months ended March 31, 2015 compared to \$457,500 for the three months ended March 31, 2014. For the three month ended March 31, 2014 net cash from financing activities was the result of the first tranche of a common stock equity financing with Shanxi Taxus, our strategic investor. The Company sold 714,826 shares of common stock at a price of \$0.70 per share for aggregate proceeds of \$0.5 million. There were no proceeds from financing activities for the three months ended March 31, 2015.

We anticipate that negative cash flow from operations will continue for the foreseeable future. We do not have any unused credit facilities. As long as any shares of our Series A Convertible Preferred Stock are outstanding, we have agreed that we will not, without the consent of the holders of two-thirds of the Series A Convertible Preferred Stock, incur indebtedness other than specified Permitted Indebtedness, or incur any liens other than specified Permitted Liens.

We intend to secure additional working capital through sales of additional debt or equity securities to finance our operations.

On April 4, 2015, we entered into a binding term sheet with Shenzhen Qianhai Taxus Industry Capital Management Co., Ltd ( Shenzhen Qianhai Taxus ), as lead investor, to purchase an equity stake in Angionetics Inc. Under the terms of the agreement, Shenzhen Qianhai Taxus agreed to acquire 15% of Angionetics' outstanding common stock, from the Company, for an aggregate purchase price of \$3,000,000, payable in three tranches to be completed by May 30, 2015. On completion of the purchase, Taxus Cardium has agreed to grant Shenzhen Qianhai Taxus a right of first negotiation for exclusive license agreements for certain Asian markets to fund local country registrations, market and sell the Generx<sup>®</sup> product candidate, Excellagen<sup>®</sup>, an FDA-cleared dermal matrix product for advanced wound healing and a delivery platform for biologics and stem cells, and LifeAgain<sup>®</sup>, an advanced medical data analytics product technology platform. The agreement contemplates that this initial funding is a bridge equity investment to a separate larger financing to be conducted by Angionetics Inc., including a potential registration and public offering of securities. The terms provide for Taxus Cardium to gross up Shenzhen Qianhai Taxus' shares to equate to a 15% interest in Angionetics following any such public offering. It also provides for certain registration rights for the shares purchased by Shenzhen Qianhai Taxus. We expect that the proceeds of this offering, if received in full, will be sufficient to fund our operations through December 31, 2015. As of the date of this report Shenzhen Qianhai Taxus has paid \$600,000 of the financing.

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Shenzhen Qianhai Taxus is an affiliate of Shanxi Taxus Pharmaceuticals Co., Ltd. which holds approximately 27.5% of Cardium's outstanding common stock as a result of a Stock Purchase Agreement dated February 21, 2014. In connection with that transaction, the Company granted Shanxi Taxus Pharmaceuticals Co., Ltd. the right to appoint two members to our Board of Directors. Mr. Jiayue Jhang, one of the appointed members of our Board of Directors who serves as our Chairman, is the Chairman of Shenzhen Qianhai Taxus and Shanxi Taxus Pharmaceuticals Co., Ltd.

Our principal business objectives are to advance the independent monetization and funding activities of our core products and technologies, with our Angionetics Inc. subsidiary being focused on the Generx angiogenic gene therapy product candidate, and our Activation Therapeutics, Inc. subsidiary being focused on the Excellagen FDA-cleared wound care product and the joint clinical development of Excellagen product line extensions as an advanced biologic delivery platform for new and innovative wound healing therapeutics, and/or to complete alternative corporate transactions. If we fail to conclude such transaction in a timely manner or alternatively fail to generate sufficient cash from financing activities, we will not generate sufficient cash flows to cover our operating expenses.

Our history of recurring losses and uncertainties as to whether our operations will become profitable raise substantial doubt about our ability to continue as a going concern. Our consolidated financial statements do not include any adjustments related to the recoverability of assets or classifications of liabilities that might be necessary should we be unable to continue as a going concern.

### **Off-Balance Sheet Arrangements**

As of March 31, 2015, we did not have any significant off-balance sheet debt nor did we have any transactions, arrangements, obligations (including contingent obligations) or other relationships with any unconsolidated entities or other persons that have or are reasonably likely to have a material current or future effect on financial condition, changes in financial condition, results of operations, liquidity, capital expenditures, capital resources, or significant components of revenue or expenses material to investors.

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

As a smaller reporting company, we are not required to provide the information required by this item.

### **ITEM 4. CONTROLS AND PROCEDURES**

We maintain certain disclosure controls and procedures that are designed to provide reasonable assurance that material information is: (i) gathered and communicated to our management, including our principal executive and financial officers, on a timely basis; and (ii) recorded, processed, summarized, reported and filed with the SEC as required under the Securities Exchange Act of 1934, as amended.

Our management, with the participation of our Chief Executive Officer, evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2015. Based on this evaluation, management concluded that our disclosure controls were not effective for their intended purposes described above as a result of a material weakness in our internal control over financial reporting. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim consolidated financial statements will not be prevented or detected and corrected on a timely basis. At the year ended December 31, 2014, we noted the following material weaknesses in the operation of our internal controls as follows:

We did not maintain a sufficient complement of personnel with the appropriate level of accounting knowledge, experience and training in the application of GAAP commensurate with our financial reporting requirements; and

We did not maintain a sufficient complement of personnel to permit the segregation of duties among personnel with access to the Company's accounting and information systems and controls.

Our management does not believe that the material weakness in internal controls has resulted in any inaccuracy or misstatement in the financial statements included in this report. We plan to remediate these material weaknesses by hiring additional qualified accounting personnel when the Company has the financial resources to support those expenses. However, these material weaknesses continued to exist during the quarterly period ended March 31, 2015.

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There were no changes to our internal control over financial reporting during the quarterly period ended March 31, 2015 that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

In the course of our business, we are routinely involved in proceedings such as disputes involving goods or services provided by various third parties to Cardium or its subsidiaries, which we do not consider likely to be material to the technology we develop or license, or the products we develop for commercialization, but which can nevertheless result in costs and diversions of resources to pursue and resolve. For example, in October 2014 we received a complaint filed by BioRASI LLC in Broward County, Florida, seeking payments of approximately \$0.5 million allegedly owed for services that BioRASI rendered in connection with the Company's clinical trial conducted in the Russian Federation. We are defending the action and have filed counterclaims.

### **ITEM 1A. RISK FACTORS**

In addition to the risk factors described below, a number of risk factors that could materially affect our business, product candidates, financial condition and results of operations are disclosed and described in our 2014 Annual Report. You should carefully consider the risks described below and under Item 1A of our 2014 Annual Report, as well as the other information in our 2014 Annual Report, this report and other reports and documents we file with the SEC, when evaluating our business and future prospects. If any of the identified risks actually occur, our business, financial condition and results of operations could be seriously harmed. In that event, the market price of our common stock could decline and you could lose all or a portion of the value of your investment in our common stock.

#### ***Risks Related to Our Business and Industry***

***Our products and product candidates are subject to ongoing regulatory requirements or require regulatory approvals, and in some cases additional prior development or testing, before marketing. We may be unable to develop, obtain or maintain regulatory approval or market any of our product candidates or expand the market of our existing products and technology. If our product candidates are delayed or fail, we will not be able to generate revenues and cash flows from operations, and we may have to curtail or cease our operations.***

Conducting the costly and time consuming research, pre-clinical and clinical testing necessary to obtain regulatory approvals and bring our products to market will require a commitment of substantial funds in excess of our current capital. Our future capital requirements will depend on many factors, including, among others: the progress of our current and new product development programs; the progress, scope and results of our pre-clinical and clinical testing; the time and cost involved in obtaining regulatory approvals; the cost of manufacturing our products and product candidates; the cost of prosecuting, enforcing and defending against patent claims and other intellectual property rights; competing technological and market developments; and our ability and costs to establish and maintain collaborative and other arrangements with third parties to assist in potentially bringing our products to market and/or to monetize the economic value of our product portfolio.

***We are dependent on third parties to assist in commercializing our products including Excellagen. If we are unable to enter into successful collaboration and sales agreements with third parties, we will not be able to successfully***

*commercialize our products.*

Our principal business objective is to complete an additional strategic licensing agreement to advance sales of the Excellagen product family and/or another corporate transaction. We do not intend to develop an inside sales team to market and sell our Excellagen® products but plan to depend strategic partnerings. We have entered into some marketing and distribution agreements for Excellagen, but have yet to develop significant revenues from those arrangements. In any such arrangement third parties would be largely responsible for the timing and extent of sales and marketing efforts, they may not dedicate sufficient resources to our product opportunities, and our ability to cause them to devote additional resources or to otherwise promote sales of our products may be limited. If we fail to enter into an additional strategic licensing arrangement or generate sufficient product sales, we will not generate sufficient cash flows to cover our operating expenses.



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***We will need substantial additional capital to develop our products and for our future operations in the near term. If we are unable to obtain such funds when needed, we may have to delay, scale back or terminate our product development or our business.***

We will need to raise substantial additional capital to fund our future operations. We cannot be certain that additional financing will be available on acceptable terms, or at all. In recent years, it has been difficult for companies to raise capital due to a variety of factors. To the extent we raise additional capital through the sale of equity securities or we issue securities in connection with another transaction, the ownership position of existing stockholders could be substantially diluted. Anti-dilution adjustments to the conversion price for our outstanding Series A Preferred Stock would cause further dilution. If additional funds are raised through the issuance of preferred stock or debt securities, these securities are likely to have rights, preferences and privileges senior to our common stock and may involve significant fees, interest expense, restrictive covenants and the granting of security interests in our assets. Raising capital through a licensing or other transaction involving our intellectual property could require us to relinquish valuable intellectual property rights and thereby sacrifice long term value for short-term liquidity.

Our failure to successfully address ongoing liquidity requirements would have a substantially negative impact on our business. If we are unable to obtain additional capital on acceptable terms when needed, we may need to take actions that adversely affect our business, our stock price and our ability to achieve cash flow in the future, including possibly surrendering our rights to some technologies or product opportunities, delaying our clinical trials or curtailing or ceasing operations. The audit opinion accompanying our consolidated financial statements, included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014, includes an explanatory paragraph indicating substantial doubt about our ability to continue as a going concern.

***Rights granted to holders of our Series A Convertible Preferred Stock may impair our ability to secure additional capital.***

In connection with the offering of the Series A Convertible Preferred Stock we granted the investor certain rights of participation in future equity financings. As long as the Series A Convertible Preferred Stock is outstanding, we have also agreed not to incur specified indebtedness without the consent of the holders of the Series A Convertible Preferred Stock. These factors may restrict our ability to raise capital through equity or debt offerings in the future.

### ***Risks Related to Our Common Stock***

***The conversion of our Series A Convertible Preferred Stock may result in substantial dilution to holders of our common stock.***

On April 4, 2013 we entered into a securities purchase agreement with an institutional investor to purchase up to 4,012 shares of our newly authorized Series A Convertible Preferred Stock for maximum proceeds of \$4.0 million. The Series A Convertible Preferred Stock is convertible into shares of our common stock at a current conversion price of \$0.6437 per post-split share. In addition, the conversion price is subject to downward adjustment if we issue common stock or common stock equivalents at a price less than the then effective conversion price. In connection with the offering of the Series A Convertible Preferred Stock we granted the investor certain rights of participation in future equity financings. At March 31, 2015, there were 1,176 shares of Series A Convertible Preferred Stock outstanding that are convertible into 1,826,381 shares of common stock. As long as the Series A Convertible Preferred Stock is outstanding, we have also agreed not to incur specified indebtedness without the consent of the holders of the Series A Convertible Preferred Stock. These factors may restrict our ability to raise capital through equity or debt offerings in the future.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

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

None.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

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None.

**ITEM 6. EXHIBITS**

The following exhibit index shows those exhibits filed with this report and those incorporated by reference:

**EXHIBIT INDEX**

<b>Exhibit Number</b>	<b>Description</b>	<b>Incorporated By Reference To</b>
3.1	Certificate of Ownership and Merger as filed with the Delaware Secretary of State On March 14, 2014.	Exhibit 3.1 of our Current report on Form 8-K, filed with the Commission on March 18, 2014.
4.1	Form of Warrant Agreement issued to directors and officers in February 2014.	Exhibit 4.1 of our Form 10-Q, filed with the Commission on May 15, 2014.
10.1	Strategic Cooperation Agreement dated February 21, 2014 between Cardium Therapeutics, Inc. and Shanxi Taxus Pharmaceuticals Co., Ltd	Exhibit 10.1 of our Current Report on Form 8-K filed with the Commission on March 4, 2014.
10.2	Securities Purchase Agreement dated February 21, 2014 between Cardium Therapeutics, Inc. and Shaanxi Taxus Pharmaceuticals Co., Ltd	Exhibit 10.2 of our Current Report on Form 8-K filed with the Commission on March 4, 2014.
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer	Filed herewith.
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer	Filed herewith.
32	Section 1350 Certification	Filed herewith.
101	The following financial statements and footnotes from the Taxus Cardium Pharmaceuticals Group, Inc. Quarterly Report on Form 10-Q for the quarter ended March 31, 2015 formatted in eXtensible Business Reporting Language (XBRL): (i) Condensed Consolidated Balance Sheets; (ii) Condensed Consolidated Statements of Operations; (iii) Condensed Consolidated Statements of Cash Flows; and (iv) the Notes to Condensed Consolidated Financial Statements.	Filed herewith.



