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Cellular Biomedicine Group, Inc.
Form 10-Q
November 08, 2016

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 September 30, 2016

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

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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 November 2, 2016, there were 14,251,246 shares of common stock, par value \$.001 per share issued and outstanding.

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PART I – FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements (Unaudited)

CELLULAR BIOMEDICINE GROUP, INC.
 CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)
 AS OF SEPTEMBER 30, 2016 AND DECEMBER 31, 2015

	September 30, 2016	December 31, 2015
Assets		
Cash and cash equivalents	\$44,115,886	\$14,884,597
Accounts receivable, less allowance for doubtful amounts of \$10,707 and \$nil as of September 30, 2016 and December 31, 2015, respectively	53,477	630,332
Other receivables	264,802	271,344
Inventory	253,173	390,886
Prepaid expenses	661,144	367,050
Taxes recoverable	-	150,082
Total current assets	45,348,482	16,694,291
Investments	509,424	5,379,407
Property, plant and equipment, net	3,119,174	2,768,900
Goodwill	7,678,789	7,678,789
Intangibles, net	14,570,556	15,949,100
Long-term prepaid expenses and other assets	1,507,686	989,935
Total assets (1)	\$72,734,111	\$49,460,422
Liabilities and Stockholders' Equity		
Liabilities:		
Accounts payable	\$220,205	\$260,886
Accrued expenses	663,880	845,087
Taxes payable	30,000	-
Other current liabilities	1,015,076	1,913,284
Total current liabilities	1,929,161	3,019,257
Other non-current liabilities	10,482	76,229
Total liabilities (1)	1,939,643	3,095,486
Commitments and Contingencies (note 12)		
Stockholders' equity:	-	-

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Preferred stock, par value \$.001, 50,000,000 shares authorized; none issued and outstanding as of September 30, 2016 and December 31, 2015, respectively

Common stock, par value \$.001, 300,000,000 shares authorized; 14,240,610 and 11,711,645 issued and outstanding as of September 30, 2016 and December 31, 2015, respectively	14,241	11,711
Additional paid in capital	150,874,763	103,807,651
Accumulated deficit	(79,406,926)	(57,338,311)
Accumulated other comprehensive income (loss)	(687,610)	(116,115)
Total stockholders' equity	70,794,468	46,364,936
Total liabilities and stockholders' equity	\$72,734,111	\$49,460,422

(1) The Company's consolidated assets as of September 30, 2016 and December 31, 2015 included \$7,913,229 and \$6,115,073, 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 represents the balances as of September 30, 2016 and December 31, 2015, respectively. These assets include cash and cash equivalents of \$2,967,559 and \$1,821,883; accounts receivable of \$nil and \$337,345; other receivables of \$145,789 and \$136,621; inventory of \$71,668 and \$180,973; prepaid expenses of \$567,996 and \$250,123; property, plant and equipment, net, of \$1,751,355 and \$1,145,924; intangibles of \$1,696,912 and \$1,892,551; and long-term prepaid expenses and other assets of \$711,950 and \$349,653. The Company's consolidated liabilities as of September 30, 2016 and December 31, 2015 included \$938,247 and \$1,478,160, respectively, of liabilities of the VIEs whose creditors have no recourse to the Company. These liabilities include accounts payable of \$100,437 and \$38,004; other payables of \$443,988 and \$914,817; payroll accrual of \$383,340 and \$464,510; and other non-current liabilities of \$10,482 and \$60,829. See further description in Note 3, Variable Interest Entities.

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

CELLULAR BIOMEDICINE GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(UNAUDITED)
FOR THE THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015

	For the Three Months Ended		For the Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Net sales and revenue	\$10,012	\$624,907	\$570,102	\$1,885,256
Operating expenses:				
Cost of sales	9,128	443,416	835,908	1,335,707
General and administrative	2,790,305	3,467,184	8,638,877	9,915,956
Selling and marketing	124,143	190,152	342,377	500,393
Research and development	2,897,736	2,190,240	8,268,953	4,968,352
Impairment of investments	4,611,714	-	4,611,714	123,428
Total operating expenses	10,433,026	6,290,992	22,697,829	16,843,836
Operating loss	(10,423,014)	(5,666,085)	(22,127,727)	(14,958,580)
Other income (expense):				
Interest income	22,338	8,386	57,678	29,417
Other income (expense)	(17,314)	492,101	6,652	502,921
Total other income, net	5,024	500,487	64,330	532,338
Loss before taxes	(10,417,990)	(5,165,598)	(22,063,397)	(14,426,242)
Income taxes credit (provision)	(243,230)	23,400	(5,218)	(29,602)
Net loss	\$(10,661,220)	\$(5,142,198)	\$(22,068,615)	\$(14,455,844)
Other comprehensive income (loss):				
Cumulative translation adjustment	(58,824)	(225,198)	(314,189)	(163,353)
Unrealized gain (loss) on investments, net of tax	-	(1,520,000)	5,300,633	6,543,460
Reclassification adjustments, net of tax, in connection with other-than-temporary impairment of investments	(5,557,939)	-	(5,557,939)	-
Total other comprehensive income (loss):	(5,616,763)	(1,745,198)	(571,495)	6,380,107
Comprehensive gain (loss)	\$(16,277,983)	\$(6,887,396)	\$(22,640,110)	\$(8,075,737)
Net loss per share :				
Basic	\$(0.75)	\$(0.44)	\$(1.67)	\$(1.27)
Diluted	\$(0.75)	\$(0.44)	\$(1.67)	\$(1.27)

Weighted average common shares outstanding:

Basic	14,128,465	11,622,756	13,253,290	11,399,958
Diluted	14,128,465	11,622,756	13,253,290	11,399,958

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 NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015

	For the Nine Months Ended	
	September 30,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$(22,068,615)	\$(14,455,844)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	2,034,411	1,537,323
Loss on disposal of assets	1,034	-
Stock based compensation expense	3,944,125	5,672,955
Decrease in fair value of accrued expenses for the acquisition of intangible assets	-	(413,559)
Other than temporary impairment on investments	4,611,714	123,428
Realized losses from sale of investments	-	5,178
Inventory provision	110,145	-
Allowance for doubtful account	10,707	-
Changes in operating assets and liabilities:		
Accounts receivable	548,268	(275,317)
Other receivables	1,275	(176,301)
Inventory	33,398	(49,828)
Prepaid expenses	(307,924)	108,055
Taxes recoverable	150,082	-
Other current assets	-	110,347
Long-term prepaid expenses and other assets	(376,214)	(156,704)
Accounts payable	(33,281)	(280,548)
Accrued expenses	(167,615)	183,105
Advances payable to related party	-	(30,216)
Other current liabilities	(528,430)	(63,426)
Taxes payable	30,000	(198,488)
Other non-current liabilities	(65,449)	(212,371)
Net cash used in operating activities	(12,072,369)	(8,572,211)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceed from sale of investments, net of issuance cost paid	-	1,480

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Purchases of intangibles	(11,160)	(4,577,740)
Purchases of assets	(1,642,179)	(918,289)
Net cash used in investing activities	(1,653,339)	(5,494,549)

CASH FLOWS FROM FINANCING ACTIVITIES:

Net proceeds from the issuance of common stock	42,437,374	18,964,849
Proceeds from exercise of stock options	685,712	478,798
Net cash provided by financing activities	43,123,086	19,443,647

EFFECT OF EXCHANGE RATE CHANGES ON CASH	(166,089)	(41,094)
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INCREASE IN CASH AND CASH EQUIVALENTS	29,231,289	5,335,793
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	14,884,597	14,770,584
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$44,115,886	\$20,106,377

SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid for income taxes	\$6,705	\$99,668
Non-cash investing activities		
Acquisition of intangible assets through issuance of the Company's stock	\$-	\$1,096,399

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

CELLULAR BIOMEDICINE GROUP, INC.
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – DESCRIPTION OF BUSINESS

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

Overview

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

We are focused on developing and marketing safe and effective cell-based therapies based on our cellular platforms, to treat serious diseases such as cancer, orthopedic diseases, various inflammatory diseases and metabolic diseases. We have developed proprietary practical knowledge in the use of cell-based therapeutics that we believe could be used to help a great number of people suffering from cancer and other serious chronic diseases. We are conducting clinical studies in China for stem cell based therapies to treat knee osteoarthritis ("KOA"). We have completed Phase IIb autologous haMPC KOA clinical study and published its promising results. Led by Shanghai Renji Hospital, one of the largest teaching hospitals in China, we launched Phase I clinical trial of an off-the-shelf allogeneic haMPC (AlloJoin™) therapy for KOA. We have completed patient recruitment and treatment for Phase I clinical studies of KOA on August 5, 2016. We also initiated multiple dose preclinical studies in a Chronic Obstructive Pulmonary Disease ("COPD") animal model, and plan to initiate manufacturing of (AlloJoin™) product for KOA preclinical and clinical studies in the United States.

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

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

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

Corporate History

Cellular Biomedicine Group, Inc. was incorporated in the State of Delaware and its corporate headquarters to 19925 Stevens Creek Blvd., Suite 100 in Cupertino, California. The Company is focusing its resources on becoming a biotechnology company bringing therapies to improve the health of patients in China.

On September 26, 2014, the Company completed its acquisition of Beijing Agreen Biotechnology Co. Ltd. ("AG") and the U.S. patent held by AG's founder. AG is a biotech company with operations in China, engaged in the development of treatments for cancerous diseases utilizing proprietary cell technologies, which include without limitation, preparation of subset T Cell and clonality assay platform technology for treatment of a broad range of cancers.

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, 2015 included in our Annual Report on Form 10-K for the year ended December 31, 2015. Operating results for the three and nine months ended September 30, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016.

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 September 30, 2016 and the results of operations for the three and nine months ended September 30, 2016 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

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

In August 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-15, “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments” (“ASU 2016-15”), which addresses the following eight specific cash flow issues: debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies (including bank-owned life insurance policies); distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. The amendments in this ASU are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. We are currently evaluating the impact of the adoption of ASU 2016-15 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 April 2016, the FASB issued ASU No. 2016-09, “Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting” (“ASU 2016-09”), which simplifies several aspects of the accounting for employee share-based payment transactions. The areas for simplification in ASU 2016-09 include the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The amendments in this ASU will be effective for annual periods beginning after December 15, 2016 and interim periods within those annual periods. Early adoption is permitted. We are currently evaluating the impact of the adoption of ASU 2016-09 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 in the process of evaluating the impact of the adoption of ASU 2016-02 on our consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, “Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities” (“ASU 2016-01”). The amendments in this update require all equity investments to be measured at fair value with changes in the fair value recognized through net income (other than those accounted for under equity method of accounting or those that result in consolidation of the investee). The amendments in this update also require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. In addition the amendments in this update eliminate the requirement for to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet for public entities. For public business entities, the amendments in ASU 2016-01 are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Except for the early application guidance discussed in ASU 2016-01, early adoption of the amendments in this update is not permitted. We do not expect the adoption of ASU 2016-01 to have a material impact on our consolidated financial statements.

In November 2015, the FASB issued ASU No. 2015-17, “Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes” (“ASU 2015-17”). Topic 740, Income Taxes, requires an entity to separate deferred income tax liabilities and assets into current and noncurrent amounts in a classified statement of financial position. Deferred tax liabilities and assets are classified as current or noncurrent based on the classification of the related asset or liability for financial reporting. Deferred tax liabilities and assets that are not related to an asset or liability for financial reporting are classified according to the expected reversal date of the temporary difference. To simplify the presentation of deferred income taxes, the amendments in ASU 2015-17 require that deferred income tax liabilities and assets be classified as noncurrent in a classified statement of financial position. For public business entities, the amendments in this update are effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. We do not expect the adoption of ASU 2015-17 to have a material impact on our consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-11, “Inventory (Topic 330): Simplifying the Measurement of Inventory” (“ASU 2015-11”). The amendments in this update require an entity to measure inventory within the scope of ASU 2015-11 (the amendments in ASU 2015-11 do not apply to inventory that is measured using last-in, first-out or the retail inventory method. The amendments apply to all other inventory, which includes inventory that is measured using first-in, first-out or average cost) at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Subsequent measurement is unchanged for inventory measured using last-in, first-out or the retail

inventory method. The amendments in ASU 2015-11 more closely align the measurement of inventory in U.S. GAAP with the measurement of inventory in International Financial Reporting Standards (“IFRS”). ASU 2015-11 is effective for public business entities for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The amendments in ASU 2015-11 should be applied prospectively with earlier application permitted as of the beginning of an interim or annual reporting period. We do not expect the adoption of ASU No. 2015-11 to have a material impact on our consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers (Topic 606)” (“ASU 2014-09”). ASU 2014-09 supersedes the revenue recognition requirements in “Revenue Recognition (Topic 605)”, and requires entities to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. The FASB issued ASU No. 2015-14, “Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date” (“ASU 2015-14”) in August 2015. The amendments in ASU 2015-14 defer the effective date of ASU 2014-09. Public business entities, certain not-for-profit entities, and certain employee benefit plans should apply the guidance in ASU 2014-09 to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Earlier adoption is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. Further to ASU 2014-09 and ASU 2015-14, the FASB issued ASU No. 2016-08, “Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)” (“ASU 2016-08”) in March 2016, ASU No. 2016-10, “Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing” (“ASU 2016-10”) in April 2016, and ASU No. 2016-12, “Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients” (“ASU 2016-12”), respectively. The amendments in ASU 2016-08 clarify the implementation guidance on principal versus agent considerations, including indicators to assist an entity in determining whether it controls a specified good or service before it is transferred to the customers. ASU 2016-10 clarifies guideline related to identifying performance obligations and licensing implementation guidance contained in the new revenue recognition standard. The updates in ASU 2016-10 include targeted improvements based on input the FASB received from the Transition Resource Group for Revenue Recognition and other stakeholders. It seeks to proactively address areas in which diversity in practice potentially could arise, as well as to reduce the cost and complexity of applying certain aspects of the guidance both at implementation and on an ongoing basis. ASU 2016-12 addresses narrow-scope improvements to the guidance on collectability, non-cash consideration, and completed contracts at transition. Additionally, the amendments in this ASU provide a practical expedient for contract modifications at transition and an accounting policy election related to the presentation of sales taxes and other similar taxes collected from customers. The effective date and transition requirements for ASU 2016-08, ASU 2016-10 and ASU 2016-12 are the same as ASU 2014-09. We are currently in the process of evaluating the impact of the adoption of ASU 2014-09, ASU 2016-08, ASU 2016-10 and ASU 2016-12 on our consolidated financial statements.

NOTE 3 – VARIABLE INTEREST ENTITIES

VIEs are those entities in which a company, through contractual arrangements, bears the risk of, and enjoys the rewards normally associated with ownership of the entity, and therefore the Company is the primary beneficiary of the entity. Cellular Biomedicine Group Ltd (Shanghai) (“CBMG Shanghai”) and its subsidiaries are variable interest entities (VIEs), through which the Company conducts stem cell research and clinical trials in China. The shareholders of record for CBMG Shanghai were Cao Wei and Chen Mingzhe, who together owned 100% of the equity interests in CBMG Shanghai. On October 26, 2016, Cao Wei, Chen Mingzhe and Lu Junfeng entered into an equity transfer agreement and a supplementary agreement (“Equity Transfer Agreement”), according to which Cao Wei ceded his equity interests in CBMG Shanghai to Chen Mingzhe and Lu Junfeng, each now owns a 50% equity interest in CBMG Shanghai. The Equity Transfer Agreement became effective on October 26, 2016 and CBMG Shanghai is in the process of applying for the record of the above equity transfer. The initial capitalization and operating expenses of CBMG Shanghai are funded by our wholly foreign-owned enterprise (“WFOE”), Cellular Biomedicine Group Ltd. (Wuxi) (“CBMG Wuxi”). The registered capital of CBMG Shanghai is ten million RMB and was incorporated on October 19, 2011.

In February 2012, CBMG Wuxi provided financing to CBMG Shanghai in the amount of \$1,587,075 for working capital purposes. In conjunction with the provided financing, exclusive option agreements were executed granting CBMG Wuxi the irrevocable and exclusive right to convert the unpaid portion of the provided financing into equity interest of CBMG Shanghai at CBMG Wuxi’s sole and absolute discretion (“First Exclusive Option Agreement”). 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 previous 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. Upon execution of the Equity Transfer Agreement, the First Exclusive Option Agreement and previous VIE pledge agreement were terminated and a new set of exclusive option agreement and VIE pledge agreement were executed.

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

There are substantial uncertainties regarding the interpretation, application and enforcement of PRC laws and regulations, including but not limited to the laws and regulations governing our business or the enforcement and performance of our contractual arrangements. See our Annual Reports on Form 10-K for the years ended December 31, 2015 and 2014. The Company has not provided any guarantees related to CBMG Shanghai and no creditors of CBMG Shanghai have recourse to the general credit of the Company.

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

The Company has aggregated the financial information of CBMG Shanghai and its subsidiaries in the table below. The aggregate carrying value of assets and liabilities of CBMG Shanghai and its subsidiaries (after elimination of intercompany transactions and balances) in the Company’s condensed consolidated balance sheets as of September 30, 2016 and December 31, 2015 are as follows:

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September 30, December 31,

2016

2015

Assets

Cash	\$2,967,559	\$1,821,883
Accounts receivable	-	337,345
Other receivables	145,789	136,621
Inventory	71,668	180,973
Prepaid expenses	567,996	250,123
Total current assets	3,753,012	2,726,945

Property, plant and equipment, net	1,751,355	1,145,924
Intangibles	1,696,912	1,892,551
Long-term prepaid expenses and other assets	711,950	349,653
Total assets	\$7,913,229	\$6,115,073

Liabilities

Accounts payable	\$100,437	\$38,004
Other payables	443,988	914,817
Payroll accrual	383,340	464,510
Total current liabilities	\$927,765	\$1,417,331

Other non-current liabilities	10,482	60,829
Total liabilities	\$938,247	\$1,478,160

NOTE 4 – INVENTORY

As of September 30, 2016 and December 31, 2015, inventory, net of provision, consisted of the following:

	September 30, 2016	December 31, 2015
Raw materials	\$241,483	\$357,896
Semi-finished goods	11,690	15,346
Finished goods	-	17,644
	\$253,173	\$390,886

Provision for inventories is as below:

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Balance at the beginning of the period	\$229,767	\$-	\$123,848	\$-
Addition	-	-	110,145	-
Exchange difference	(1,603)	-	(5,829)	-
Balance at the end of the period	\$228,164	\$-	\$228,164	\$-

NOTE 5 – PROPERTY, PLANT AND EQUIPMENT

As of September 30, 2016 and December 31, 2015, property, plant and equipment, carried at cost, consisted of the following:

	September 30, 2016	December 31, 2015
Office equipment	\$83,409	\$24,526
Manufacturing equipment	3,333,153	2,680,805
Computer equipment	173,293	150,698
Leasehold improvements	1,952,387	1,417,997
Construction work in process	21,778	680,740
	5,564,020	4,954,766
Less: accumulated depreciation	(2,444,846)	(2,185,866)
	\$3,119,174	\$2,768,900

For the three and nine months ended September 30, 2016, depreciation expense was \$228,366 and \$669,064, respectively, as compared to \$124,992 and \$423,901 for the three and nine months ended September 30, 2015, 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:

September 30, 2016	Adjusted 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	-	-	-	480,000
Total	\$731,388	\$-	\$-	\$(221,964)	\$509,424

December 31, 2015	Adjusted Cost	Gross Unrealized Gains/(losses)	Gross Unrealized Losses more than 12 months	Gross Unrealized Losses less than 12 months	Market or Fair Value
	\$251,388	\$-	\$-	\$(133,694)	\$117,694

Equity position in Alpha Lujo, Inc.					
Equity position in Arem Pacific Corporation	5,030,000	170,000	-	-	5,200,000
Equity position in Wonder International Education & Investment Group Corporation	61,713	-	-	-	61,713
Total	\$5,343,101	\$170,000	\$-	\$(133,694)	\$5,379,407

There were no net proceeds from sale of investments for the three months ended September 30, 2016 and 2015. Net proceeds from sale of investments for the nine months ended September 30, 2016 and 2015 was \$ nil and \$1,480, respectively.

There was no net realized losses from sale of investments for the three months ended September 30, 2016 and 2015. Net realized losses from sale of investments for the nine months ended September 30, 2016 and 2015 was \$ nil and \$5,178, respectively.

The unrealized holding gain (loss) for the investments, net of tax that were recognized in other comprehensive income for the three and nine months ended September 30, 2016 was \$nil and \$5,300,633, respectively, as compared to \$(1,520,000) and \$6,543,460 for the three and nine months ended September 30, 2015, respectively. Reclassification adjustment of \$5,557,939 in connection with other-than-temporary impairment of investments was recorded in other comprehensive income for the three and nine months ended September 30, 2016. No adjustment was recorded in other comprehensive income for the three and nine months ended September 30, 2015.

The Company tracks each investment with an unrealized loss and evaluate them on an individual basis for other-than-temporary impairments, including obtaining corroborating opinions from third party sources, performing trend analysis and reviewing management's future plans. When investments have declines determined by management to be other-than-temporary the Company recognizes write downs through earnings. Other-than-temporary impairment of investments for the three months ended September 30, 2016 and 2015 was \$4,611,714 and \$nil, respectively. Other-than-temporary impairment of investments for the nine months ended September 30, 2016 and 2015 was \$4,611,714 and \$123,428, respectively.

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 September 30, 2016 and December 31, 2015 are summarized as follows:

As of September 30, 2016

Fair Value Measurements at Reporting Date Using:

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

As of December 31, 2015

Fair Vaue Measurements at Reporting Date Using:

	Quoted Prices in		Significant Other	Significant
	Active Markets for		Observable	Unobservable
	Identical Assets		Inputs	Inputs
Total	(Level 1)	(Level 2)	(Level 3)	

Assets:

Equity position in Alpha Lujo, Inc.	\$117,694	\$-	\$117,694	\$-
Equity position in Arem Pacific Corporation	5,200,000	-	5,200,000	-
Equity position in Wonder International Education & Investment Group Corporation	61,713	-	61,713	-
	\$5,379,407	\$-	\$5,379,407	\$-

No shares were acquired in the nine months ended September 30, 2016 and 2015.

As of September 30, 2016 and December 31, 2015, 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, respectively. All available-for-sale investments held by the Company at September 30, 2016 and December 31, 2015 have been valued based on Level 2 inputs due to the limited trading of all three 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. 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 September 30, 2016 and December 31, 2015, intangible assets, net consisted of the following:

Patents & knowhow & license

	September 30, 2016	December 31, 2015
Cost basis	\$17,632,235	\$17,686,700
Less: accumulated amortization	(3,110,178)	(1,790,045)
	\$14,522,057	\$15,896,655

Software

	September 30, 2016	December 31, 2015
Cost basis	\$98,855	\$90,951
Less: accumulated amortization	(50,356)	(38,506)
	\$48,499	\$52,445

Total intangibles, net	\$14,570,556	\$15,949,100
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All software is provided by a third party vendor, is not internally developed, and has an estimated useful life of five years. Patents and knowhow are amortized using an estimated useful life of three to ten years. Amortization expense for the three and nine months ended September 30, 2016 was \$456,878 and \$1,365,317, respectively, and amortization expense for the three and nine months ended September 30, 2015 was \$483,800 and \$1,113,422, respectively.

Estimated amortization expense for each of the ensuing years is as follows for the years ending September 30:

Years ending September 30, Amount

2017	\$1,782,559
2018	1,774,640
2019	1,772,461
2020	1,770,134
2021 and thereafter	7,470,762
	\$14,570,556

NOTE 9 – LEASES

The Company leases facilities under non-cancellable operating lease agreements. These facilities are located in the United States, Hong Kong and China. The Company recognizes rental expense on a straight-line basis over the life of the lease period. Rent expense under operating leases for the three and nine months ended September 30, 2016 was approximately \$219,051 and \$794,734, respectively, as compared to \$255,667 and \$758,889 for the three and nine months ended September 30, 2015, respectively.

As of September 30, 2016, the Company has the following future minimum lease payments due under the foregoing lease agreements:

Years ending September 30, Amount	
2017	\$603,119
2018	481,607
2019	477,081
2020	353,342
2021 and thereafter	596,244
	\$2,511,393

NOTE 10 – RELATED PARTY TRANSACTIONS

The Company advanced petty cash to officers for business travel purpose. As of September 30, 2016 and December 31, 2015, other receivables due from officers for business travel purpose was \$ nil and \$19,214, 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.

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

On June 26, 2015, the Company completed its acquisition of the certain license rights to technology and know-how from Blackbird BioFinance, LLC ("Blackbird") and entered into an assignment and assumption agreement to acquire all of Blackbird's right, title and interest in and to the exclusive worldwide license to a CD40LGVAX vaccine from the University of South Florida. According to the asset purchase agreement, \$1,050,500 in restricted common stock (based on the 20-day volume-weighted average price of the Company's stock on the closing date) will be delivered to Blackbird at closing, thus 28,120 shares of Company common stock were issued as part of the consideration of this transaction. In addition, 18,747 shares of Company common stock (equal to \$700,000 based on the 20-day volume-weighted average price of the Company's stock on the closing date) would be delivered to Blackbird on the 6 month anniversary of the closing date upon satisfaction of certain conditions according to the agreements. Above

shares were issued in November 2015.

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

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

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

During the three and nine months ended September 30, 2016, the Company expensed \$1,357,799 and \$3,407,615 associated with unvested option awards and \$174,065 and \$536,510 associated with restricted common stock issuances, respectively. During the three and nine months ended September 30, 2015, the Company expensed \$1,920,063 and \$5,437,427 associated with unvested options awards and \$134,842 and \$235,528 associated with restricted common stock issuances, respectively.

During the three and nine months ended September 30, 2016, options for 130,882 and 159,617 underlying shares were exercised on a cash basis, 130,882 and 159,617 shares of the Company's common stock were issued accordingly. During the three and nine months ended September 30, 2015, options for 45,645 and 121,168 underlying shares were exercised on a cash basis, 45,645 and 121,168 shares of the Company's common stock were issued accordingly.

During the three and nine months ended September 30, 2016, 10,500 and 20,460 shares of the Company's restricted common stock were issued respectively. During the three and nine months ended September 30, 2015, 547 and 1,448 shares of the Company's restricted common stock were issued respectively.

NOTE 12 – COMMITMENTS AND CONTINGENCIES

Service Agreement with Wen Tao (Steve) Liu

On February 7, 2016 the Company entered into a two-year consulting agreement with Wen Tao (Steve) Liu, a director of the Company, pursuant to which Wen Tao Liu would advise the Company on strategic opportunities and China hospital resource management as directed by the CEO, maintain the Company's Cupertino office and provide other consulting services etc. Compensation related to the consulting services are disclosed in Exhibit 99.1 of the quarterly report on Form 10-Q for the three-month ending March 31, 2016.

Capital commitments

As of September 30, 2016, the capital commitments of the Company are summarized as follows:

September 30, 2016

Contracts for acquisition of plant and equipment being or to be executed	\$1,714,536
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Legal proceedings

On April 21, 2015, a putative class action complaint was filed against the Company in the U.S. District Court for the Northern District of California captioned *Bonnano v. Cellular Biomedicine Group, Inc.*, 3:15-cv-01795-WHO (N.D. Ca.). The complaint also named Wei Cao, the Company's Chief Executive Officer, and Tony Liu, the Company's Chief Financial Officer, as defendants. The complaint alleged that during the class period, June 18, 2014, through April 7, 2015, the Company made material misrepresentations in its periodic reports filed with the SEC. The complaint alleged a cause of action under Section 10(b) of the Securities Exchange Act of 1934 (the "1934 Act") against all defendants and under Section 20(a) of the 1934 Act against the individual defendants. The complaint did not state the amount of the damages sought.

On June 3, 2015, defendants were served. On June 29, 2015, the Court ordered, as stipulated by the parties, that defendants are not required to respond to the initial complaint in this action until such time as a lead plaintiff and lead counsel have been appointed and a consolidated complaint has been filed. The deadline for filing motions for the appointment of lead plaintiff and selection of lead counsel was June 22, 2015. On that date, one motion was filed by the Rosen Law Firm on behalf of putative plaintiff Michelle Jackson. On August 3, 2015, having received no opposition, the Court appointed Jackson as lead plaintiff and the Rosen Law Firm as class counsel. As stipulated among the parties, Jackson filed an amended class action complaint on September 17, 2015.

The amended complaint names ten additional individuals and entities as defendants ("additional defendants"), none of whom are affiliated with the Company, and asserts an additional claim under Section 10(b) and Rule 10b-5(a) and (c) thereunder that the Company purportedly engaged in a scheme with the additional defendants to promote its securities. The amended complaint does not assert any claims against Mr. Liu.

On January 19, 2016, the Company filed a motion to dismiss, which was argued on April 20, 2016. On May 20, 2016, the Court granted the motion to dismiss with leave to amend. On June 6, 2016, Plaintiffs filed a Second Amended Complaint, and on June 30, 2016, the Company filed a motion to dismiss. Oral argument on the motion was held on August 17, 2016. On September 2, 2016, the Court dismissed the Second Amended Complaint with prejudice and entered judgment against Plaintiffs. On September 16, 2016, Plaintiffs filed a Notice of Appeal to the U.S. Court of Appeals for the Ninth Circuit. Plaintiffs must file their opening brief on December 27, 2016, to proceed with the appeal.

The Company believes the suit is without merit and filled with patently false information, and will vigorously defend the Company in the matter. At this stage of the proceedings, it is not possible to evaluate the likelihood of an unfavorable outcome or to estimate the range of potential loss.

Other than legal proceedings disclosed in this section, we are currently not involved in any litigation that we believe could have a materially adverse effect on our financial condition or results of operations.

NOTE 13 – STOCK BASED COMPENSATION

Our stock-based compensation arrangements include grants of stock options and restricted stock awards under the Stock Option Plan (the "2009 Plan", "2011 Plan", "2013 Plan" and the "2014 Plan"), and certain awards granted outside of these plans. The compensation cost that has been charged against income related to stock options for the three and nine months ended September 30, 2016 was \$1,357,799 and \$3,407,615, respectively, and for the three and nine months ended September 30, 2015 was \$1,920,063 and \$5,437,427, respectively. The compensation cost that has been charged against income related to restricted stock awards for the three and nine months ended September 30, 2016 was \$174,065 and \$536,510, respectively, and for the three and nine months ended September 30, 2015 was \$134,842 and \$235,528, respectively.

As of September 30, 2016, there was \$7,096,277 of unrecognized compensation cost related to an aggregate of 660,531 of non-vested stock option awards and \$1,225,683 related to an aggregate of 58,756 of non-vested restricted stock awards. These costs are expected to be recognized over a weighted-average period of 1.49 years for the stock options awards and 1.43 years for the restricted stock awards.

During the three months ended September 30, 2016, the Company issued options under the 2013 Plan and 2014 Plan of an aggregate of 23,300 shares of the Company's common stock to officers, directors, employees and advisors. The grant date fair value of these options was \$235,786 using Black-Scholes option valuation models with the following assumptions: grant date stock price \$12.13 to \$16, volatility 88.44% to 88.75%, expected life 6.0 years, and risk-free rate of 1.07% to 1.35%. The Company is expensing these options on a straight-line basis over the requisite service period.

During the nine months ended September 30, 2016, the Company issued options under the 2013 Plan and 2014 Plan of an aggregate of 257,043 shares of the Company's common stock to officers, directors, employees and advisors. The grant date fair value of these options was \$3,278,447 using Black-Scholes option valuation models with the following assumptions: grant date stock price \$12.13 to \$40.00, volatility 88.44% to 90.03%, expected life 6.0 years, and risk-free rate of 1.07% to 1.65%. The Company is expensing these options on a straight-line basis over the requisite service period.

During the three months ended September 30, 2015, the Company issued options under the 2013 Plan and 2014 Plan of an aggregate of 64,500 shares of the Company's common stock to officers, directors and employees. The grant date fair value of these options was \$1,147,295 using Black-Scholes option valuation models with the following assumptions: grant date stock price \$21.67 to \$38.4, volatility 88.53% to 89.07%, expected life 6.0 years, and risk-free rate of 1.57% to 1.92%. The Company is expensing these options on a straight-line basis over the requisite service period.

During the nine months ended September 30, 2015, the Company issued an aggregate of 698,779 options under the 2013 Plan and 2014 Plan to officers, directors and employees. The grant date fair value of these options was \$13,319,639 using Black-Scholes option valuation models with the following assumptions: exercise price equal to the grant date stock price of \$5.00 to \$38.4, volatility 88.53% to 99.27%, expected life 6.0 years, and risk-free rate of 1.39% to 1.92%. 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 September 30, 2016 and December 31, 2015 and for the nine months ended September 30, 2016:

	Number of Options	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at December 31, 2015	1,952,648	\$12.42	7.8	\$17,701,962
Grants	257,043	19.65		
Forfeitures	(424,340)	19.90		
Exercises	(159,617)	4.31		
Outstanding at September 30, 2016	1,625,734	\$12.41	7.5	\$3,396,438
Vested and exercisable at September 30, 2016	965,203	\$8.42	7.0	\$5,869,205

Exercise Price	Number of Options	
	Outstanding	Exercisable
		-
\$3.00 - \$4.95	186,430	186,430
\$5.00 - \$9.19	615,972	532,331
\$12.91+	823,332	246,442
	1,625,734	965,203

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 nine months ended September 30, 2016 and 2015 was \$685,712 and \$478,798.

NOTE 14 – NET LOSS PER SHARE

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

	For the Three Months Ended		For the Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Net loss	\$(10,661,220)	\$(5,142,198)	\$(22,068,615)	\$(14,455,844)
Weighted average shares of common stock	14,128,465	11,622,756	13,253,290	11,399,958
Dilutive effect of stock options	-	-	-	-
Restricted stock vested not issued	-	-	-	-
Common stock and common stock equivalents	14,128,465	11,622,756	13,253,290	11,399,958
Net loss per basic share	\$(0.75)	\$(0.44)	\$(1.67)	\$(1.27)
Net loss per diluted share	\$(0.75)	\$(0.44)	\$(1.67)	\$(1.27)

For the three and nine months ended September 30, 2016 and 2015, the effect of conversion and exercise of the Company's outstanding options are excluded from the calculations of dilutive net loss per share as their effects would have been anti-dilutive since the Company had generated loss for the three and nine months ended September 30, 2016 and 2015.

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 and nine months ended September 30, 2016, we recorded a valuation allowance against our U.S. net deferred tax

assets. In order to fully realize the U.S. deferred tax assets, we will need to generate sufficient taxable income in future periods before the expiration of the deferred tax assets governed by the tax code.

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

As of September 30, 2016, the Company had net operating loss carryforwards of \$9.98 million for U.S. federal purposes, \$9.55 million for U.S. state purposes, and \$6.4 million for Chinese income tax purposes, such losses will begin to expire in 2034, 2034, and 2021 for U.S. federal, U.S. state and Chinese income tax purposes, respectively. Deferred income tax expense is a result of recognizing tax benefit of current period loss due to other comprehensive income recorded this quarter. The Company's effective tax rate differs from statutory rates of 35% for U.S. federal income tax purposes, 15% to 25% for Chinese income tax purpose and 16.5% for Hong Kong income tax purposes due to the effects of the valuation allowance and certain permanent differences as it pertains to book-tax differences in the value of client shares received for services.

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

NOTE 16 – COLLABORATION AGREEMENT

Part of AG's business includes a collaboration agreement to establish and operate a biologic treatment center in the Jilin province of China. Under the terms of the Collaboration Agreement dated December 10, 2012 and its supplementary agreement dated July 19, 2014 (the "Collaboration Agreement"), AG's collaborative partner (the "Partner") funded the development of the center and provides certain ongoing services. In exchange, the Partner receives preferred repayment of all funds that were invested in the development, 60% of the net profits until all of the invested funds are repaid, and 40% of the net profits thereafter, and the rights to the physical assets at the conclusion of the agreement. We accounted for this transaction in accordance with ASC 808 Collaborative Arrangements and have reflected all assets and liabilities of the treatment center. With our recent build-up of multiple cancer therapeutic technologies, we have prioritized our clinical efforts on developing CAR-T technologies, Vaccine, Tcm and TCR clonality technologies, and not actively pursuing the fragmented technical services opportunities

In June 2016, the Company and the Partner agreed to terminate the Collaboration Agreement and in July 2016 entered into a cooperation termination agreement (the "Termination Agreement") with the Partner. In August 2016, in accordance with the Termination Agreement, the Company paid \$0.3 million (RMB2 million equivalent) to settle all the liabilities with the Partner and retain the ownership of all the assets under the Collaboration Agreement.

NOTE 17 – SEGMENT INFORMATION

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

NOTE 18 – SUBSEQUENT EVENTS

The Company entered into a tenancy deposit agreement on September 26, 2016 with Shanghai Chuangtong Industrial Development Co., Ltd., for a lease of a 10,500 square meters four-stories building located in the "Pharma Valley" in Shanghai, P. R. China ("Zhangjiang Lease"). The building is under construction and the lease contract shall be executed within one week after obtaining the construction completion filing. The proposed ten-year lease is to commence no later than March 30, 2017. On October 11, 2016 the Company paid a non-refundable deposit of \$179,700 (RMB 1.2 million equivalent).

On October 26, 2016, Cao Wei, Chen Mingzhe and Lu Junfeng entered into the Equity Transfer Agreement, according to which Cao Wei ceded his equity interests in CBMG Shanghai to Chen Mingzhe and Lu Junfeng, each now owns a 50% equity interest in CBMG Shanghai. On October 26, 2016, CBMG Wuxi, CBMG Shanghai, Cao Wei and Chen Mingzhe entered into a termination agreement, pursuant to which, the First Exclusive Option Agreement and previous VIE pledge agreement were terminated; on the same day, a new set of exclusive option agreement and VIE pledge

agreement were executed by and among CBMG Wuxi, CBMG Shanghai, Chen Mingzhe and Lu Junfeng. The above termination agreement and the new set of exclusive option agreement and VIE pledge agreement became effective on October 26, 2016.

The Company applied for the release of the equity pledge under the previous VIE pledge agreement on October 18, 2016 and obtained the approval for such release on October 26, 2016. CBMG Shanghai is in the process of applying for the record of the above equity transfer and the pledge of the equity interests under the new VIE pledge agreement.

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 and nine months ended September 30, 2016 and 2015, 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 results of our pending and future litigation;

the emergence of new technologies which compete with our product and service offerings;

our cash position and cash burn rate;

other capital market conditions, including availability of funding sources;

the strength of our intellectual property portfolio; and

changes in government regulations in China, the United States and other countries related to our industries.

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

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

OVERVIEW

For purposes of this periodic report, “CBMG BVI” refers to Cellular Biomedicine Group Ltd., a British Virgin Islands corporation, which is now a wholly-owned subsidiary of the registrant, together with its business, operations, subsidiaries and controlled entities). The “Company”, “CBMG”, “we”, “us”, “our” and similar terms refer to Cellular Biomedicine Group, Inc. (a Delaware corporation) as a combined entity including each of its subsidiaries and controlled companies, unless the context otherwise requires.

Recent Developments

In January 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 the second arthroscopic look, we have determined to terminate the study. We continue to conduct studies of KOA haMPC therapy.

On February 4, 2015, the Company announced its agreement related to the acquisition of Chinese PLA General Hospital's ("PLAGH", Beijing, also known as "301 Hospital") Chimeric Antigen Receptor T cell (“CAR-T”) therapy, its recombinant expression vector CD19, CD20, CD30 and Human Epidermal Growth Factor Receptor's (EGFR or HER1) Immuno-Oncology patents applications, and Phase I clinical data of the aforementioned therapies and manufacturing knowledge. The 301 Hospital team has conducted several preliminary clinical studies of various CAR-T constructs targeting CD19-positive acute lymphocytic leukemia, CD20-positive advanced B-cell Non-Hodgkin's lymphoma, CD30-positive Hodgkin's lymphoma and EGFR-HER1-positive advanced lung cancer, cholangiocarcinoma, pancreatic cancer, and renal cell carcinoma. Pursuant to the terms of the Transfer Agreement, PLAGH agreed to transfer to the Company all of its rights, titles and interests in and to certain technologies currently owned by PLAGH (including, without limitation, four technologies and their pending patent applications) that relate to genetic engineering of chimeric antigen receptor (CAR)-modified T cells and its applications (collectively, the “Technology”). In addition, PLAGH is responsible for obtaining governmental approval for the clinical trial related to the Technology. On July 29, 2016, China Patent Office granted our patent application on genetically engineered anti-CD20 Chimeric Antigen Receptor-positive NKT cells, its production and application.

We announced interim Phase IIb trial results for our ReJoin® haMPC therapy for KOA on March 25, 2015, which confirmed that the primary and secondary endpoints of ReJoin® therapy groups have all improved significantly compared to their baseline. We released complete and positive phase IIb data set at 48-week follow-up in January 2016, which concluded the company's phase IIb trial with autologous stem cells for KOA.

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

I.

The patient selection criteria of this study are highly selective. The participants enrolled in the studies were advanced, relapsed, and refractory to other standard-of-care therapies. This selection criterion is highly distinguishable from other studies, which avoided higher risk patients. Most of these high severity patients would not have been eligible for other entities' studies because of extramedullary involvement or because the presence of bulky tumors were deemed too risky for their trials.

II.

The treatment program design of this study is very stringent.

a.

Our higher risk patients did not receive conditioning chemotherapy, which is known as a beneficial facilitator of adoptive T cell therapies.

b.

Moreover, our higher risk patients did not receive subsequent Hematopoietic Stem Cell transplantation (HSCT), which is also known as a beneficial facilitator of adoptive T cell therapies.

On May 27, 2015, the Company announced the appointment of Richard L. Wang, Ph.D., MBA, PMP as Chief Operating Officer. Dr. Wang, a seasoned and accomplished scientist and industry professional, brings operational, project management, and R&D governance experience from multinational pharmaceutical companies, to support the Company's research of osteoarthritis and oncology therapeutics. Dr. Wang oversees the Company's research collaborations, technology transfers, drug development clinical trials, regulatory affairs, production, and oversight of the Company's multicenter operations.

At the 10th Annual World Stem Cells & Regenerative Medicine Congress in London, UK on May 21, 2015, the Company announced results of the Phase I clinical studies of CD30-directed CAR-T therapy on CD30-positive Stage III and IV Hodgkin's lymphoma patients. The results of this trial demonstrated that five out of seven patients responded to the treatment, and the therapy was demonstrated in this trial to be safe, feasible and efficacious.

On June 26, 2015, the Company completed the acquisition of Blackbird BioFinance, LLC ("Blackbird")'s license from University of South Florida ("USF") on the next generation cancer immunotherapy vaccine CD40LGVAX, its related technologies and technical knowledge. Of the total consideration to be delivered to Blackbird for the purchased assets, \$2,500,000 was delivered in cash and 28,120 shares of Company common stock (the "Closing Shares"), representing \$1,050,000 of the purchase consideration (based on the 20-day volume-weighted average price of the Company's stock on the closing date), was issued and delivered to Blackbird. Another 18,747 shares (the "Holdback Shares"), representing \$700,000 of the purchase consideration (based on the 20-day volume-weighted average price of the Company's stock on the closing date), was issued and delivered to Blackbird in November 2015. Based on the terms of the license, we believe the Company will pay potentially more than \$25 million in future milestones and royalty payments.

We believe this technological addition may address meaningful and sizable unmet medical needs. Based on the latest data available from NCCN Clinical Practice Guidelines in Oncology Non-Small Cell Lung Cancer (“NSCLC”) (Version 4. 2014), an estimated 224,210 people in the United States were diagnosed with lung cancer in 2014, with an estimated 159,260 deaths occurring because of the disease. In China, 728,552 individuals were diagnosed with lung cancer in 2012, and 592,410 individuals in China died of lung cancer in 2012 (source: Chinese Cancer Registry Annual Report 2012 & GMCD40L Study Synopsis).

Despite the advances of targeted therapies and recent breakthroughs with immune checkpoint inhibitors, such as anti-PD1 or PDL1 monoclonal antibody treatments, there are still significant unmet medical needs in NSCLC, and the disease remains largely incurable. We believe the CD40LGVAX vaccine, in combination with an anti-PD1 monoclonal antibody, may provide synergistic and improved clinical benefits in both PDL1 positive and negative patients. We previously anticipated a phase I/II clinical trial for the CD40LGVAX vaccine combined with PD-1 antibody to commence in the second half of 2015. We are currently evaluating both U.S. and non-U.S. options for furthering clinical trials for the CD40LGVAX vaccine following Moffitt Cancer Center’s notification to us that it will not be continuing its sponsorship of the U.S. CD40LGVAX Trial. In the third quarter of 2015, we reviewed and modified the design of CD40LGVAX trial by expanding the number of patient recruitment, changing from single site to multi-sites trial and adding stratification to the trial.

On June 26, 2015, the Russell Investments Group reconstituted its comprehensive set of U.S. indexes, the Company was selected to be included in the broad-market Russell 3000® Index. The Russell 3000® Index encompasses the 3,000 largest U.S.-traded stocks by objective, market-capitalization rankings and style attributes. This weighted index by market capitalization was constructed to provide a comprehensive barometer of the broad market and it now represents approximately 98% of the investable U.S. equity market. Membership in this index, which remains in place for one year, means automatic inclusion in the small-cap Russell 2000® Index as well as the appropriate growth and value style indexes. Russell indexes are widely used by investment managers and institutional investors for index funds and as benchmarks for active investment strategies.

In July 2015, the Company has received two new certifications from the China Food and Drug Administration (the “CFDA”) for its proprietary cell and tissue preservation media kits. These certified kits enable long-term preservation and long distance shipment of cells and tissue, without freezing them down, from and to the point of care for ready applications by physicians. The latest certifications further strengthen our Vertically Integrated Cell Manufacturing System (VICMS) to centralize the processing and supplying of autologous cell therapies, and reinforce our potential to be a world-class biotechnology company, serving large unmet medical needs.

On August 26, 2015 the Company filed new patents - “Preparation of HER1 chimeric antigen receptor and NKT cells and application” for China patent and PCT and “Preparation of CD19 chimeric antigen receptor and NKT cells and application” for China patent.

On September 26, 2015, the Company presented at the 2015 European Cancer Congress’ (“ECCO”) annual meeting held in Vienna, Austria results from the first 11 NSCLC patients in the trial outlined in the abstract, entitled Chimeric Antigen Receptor-Modified T-Cells for the Immunotherapy of Patients with HER-1 Expressing Advanced Relapsed/Refractory Non-Small Cell Lung Cancer.

On September 28, 2015, the Company announced results of the Phase I clinical studies of CAR-T EGFR-HER1 (“CBM-EGFR.1”) for the treatment of patients with EGFR expressing advanced relapsed/refractory solid tumors. Based on the results from 24 patients treated with CBM-EGFR.1 (17 patients with non-small cell lung cancer, 5 patients with cholangiocarcinoma, 1 patient with pancreatic cancer and 1 patient with renal cell carcinoma (“RCC”)), the early results showed that CBM-EGFR.1 immunotherapy was safe, well tolerated, and had positive signal of clinical activity in several indications. The data was selected for a late-breaking oral presentation entitled EGFR-Targeted Chimeric

Antigen Receptor-Modified T Cells Immunotherapy for Patients With EGFR-Expressing Advanced or Relapsed/Refractory Solid Tumors at the 5th World Congress on Cancer Therapy in Atlanta, Georgia. Highlight of Phase I/II clinical trial for CBMG CAR-T products in multiple advanced, refractory/relapsing solid tumors is as follow:

First known report of positive safety and signal of clinical activity of EGFR CAR-T in multiple solid tumor indications,

Most NSCLC patients treated with CBM-EGFR.1 failed EGFR-TKI therapy prior to CBM-EGFR.1 treatment,

Overall disease control rate (DCR) is 79% (19 of 24). 100% DCR in cholangiocarcinoma (5/5), 71% DCR in NSCLC (12/17),

Objective response rate (ORR) of 25% in combined indications: 2 complete response (CR) and 1 partial response (PR) in cholangiocarcinoma, 2 PR in NSCLC and 1 PR in pancreatic cancer.

The September 2015 reports on CBM-EGFR.1 therapy for late stage solid tumors have demonstrated our ability to innovate, advance boundaries between basic research and translational medicine and streamline the production of CAR-T and clinical treatment. With the talent addition of our COO and CSO, and the maturing of working relationship with PLAGH cancer immune cell therapy resources, we plan to evaluate and prioritize our cancer clinical trial indications for commercialization using safe and most effective therapy or combination therapies. The Company believes that, when integrated with CBMG's state-of-the-art infrastructure and clinical platform, the aforementioned acquired AG, 301 Hospital and USF technologies will improve our cancer immune cell therapies clinical pathway and pave the way for collaboration with renowned institutions. We plan to initiate certain cancer clinical trials upon receiving acceptance of the clinical trial designs with principal investigators and obtaining the requisite approvals.

On November 9, 2015, the Company announced the opening of its new state-of-the-art facility in the PKUCare Industrial Park, Changping District, Beijing, China. Eight hundred square meters of the 1,400 square meter site has been equipped with four independent production lines to support clinical batch production and commercial scale manufacturing. Designed and built to GMP standards, the facility has been certified by the Beijing Institute for Drug Control, accredited bodies of the China National Accreditation Service (CNAS) and China Metrology Accreditation (CMA). With this expansion into Beijing, the Company now operates three facilities in China that currently houses twelve independent production lines with the capacity to host more than 200,000 individual cell sources. With our integrated Plasmid, Viral Vectors, and CAR-T cells Chemistry, Manufacturing, and Controls ("CMC") process as well as planned capacity expansion, we are highly distinguishable with other companies in the cellular medicine space.

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

On August 5, 2016 we completed patient treatment for the Allogenic KOA Phase I Trial. Patients will be monitored over the next 12 months for safety, as well as efficacy signs.

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

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

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

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

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

Confirm the safety and tolerability profile in an investigator sponsored phase I trial of CBM-CD19 in refractory aggressive DLBCL, and to prepare for a follow up multi-center phase IIb trial;

Initiate a phase I-IIb trial to evaluate the safety and efficacy of CBM-CD19 in CD19+ refractory/relapsing adult B-ALL patients;

Submit to the CFDA of IND package for CBM-CD19 in CD19+ B-cell malignancies;

Initiate an investigator sponsored phase I trial of CBM-CD20 in CLL patients;

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

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

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

Complete the Allogeneic KOA Phase I Trial in China;

Complete CMC and other required preclinical study data package to prepare for Allogeneic KOA IND filing in the United States;

Evaluate feasibility of initiating clinical study to support the New Drug Application (NDA) for an allogeneic haMPC Knee Osteoarthritis therapy (“Allo KOA”) study in the United States;

Complete preclinical efficacy evaluation to decide development path for COPD indication;

Continue to seek advanced technologies to bolster our CAR-T China market position;

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

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

Evaluate new regenerative medicine technology platform for other indications;

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

Expand our cell manufacturing capacity and capabilities.

For the nine months ended September 30, 2016 and 2015, we generated \$570,102 and \$1,885,256 in revenue, respectively, from our technology consulting service. With our recent build-up of multiple cancer therapeutic technologies, we have prioritized our clinical efforts on developing CAR-T technologies, Vaccine, Tcm and TCR clonality technologies, and not actively pursuing the fragmented technical services opportunities. We expect our biomedicine business to generate revenues primarily from immune therapy and the development of therapies for the treatment of KOA in the next four to six years.

We incurred an increase in total operating expenses of approximately \$5.9 million for the nine months ended September 30, 2016, as compared to the nine months ended September 30, 2015, which is primarily attributable to increased input into expenditures for R&D projects and non-temporary impairment of investments.

Corporate History

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

BIOMEDICINE BUSINESS

Our biomedicine business was founded in 2009 as a newly formed specialty biomedicine company by a team of seasoned Chinese-American executives, scientists and doctors. In 2010, we established a facility designed and built to GMP standards in Wuxi, and in 2012 we established a U.S. Food and Drug Administration (“FDA”) GMP standard protocol-compliant manufacturing facility in Shanghai. In October 2015, we opened a facility designed and built to GMP standards in Beijing. Our focus has been to serve the rapidly growing health care market in China by marketing and commercializing stem cell and immune cell therapeutics, related tools and products from our patent-protected homegrown and acquired cell technology, as well as by utilizing exclusively in-licensed and other acquired intellectual properties.

Our current treatment focal points are cancer and other degenerative diseases such as KOA.

Cancer. In the cancer field, with the recent build-up of multiple cancer therapeutic technologies, we have prioritized our clinical efforts on CAR-T, technologies, Vaccine, Tcm and TCR clonality technologies, and not actively pursuing the fragmented technical services opportunities. We are integrating CBMG's state-of-the art infrastructure and clinical platform with the technologies platform to boost the Company's immuno-oncology presence and pave the way for future partnerships. We plan to initiate certain cancer clinical trials in China upon receiving acceptance of the clinical trial designs with the principal investigator and obtaining the requisite regulatory approval. We announced results from our Phase I trial for certain of CAR-T cancer immunotherapy programs on March 25, May 21, and late September 2015. The Phase I trial data for the CD19, CD20 and CD30 and EGFR HER 1 constructs showed a positive response rate under controllable toxicities.

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

In Q2 of 2014, we completed patient enrollment for the Phase IIb clinical trial of ReJoin® for KOA. The multi-center study enrolled 53 patients to participate in a randomized, single blind trial. We published 48 weeks follow-up data of Phase I/IIa on December 5, 2014. The 48 weeks data indicated that patients have reported a decrease in pain and a significant improvement in mobility and flexibility, while the clinical data shows our ReJoin® regenerative medicine treatment to be safe. We announced interim 24 week results for ReJoin® on March 25, 2015 and released positive Phase IIb 48 week follow-up data in January 2016, which shows the primary and secondary endpoints of ReJoin® therapy group having all improved significantly compared to their baseline, which has confirmed some of the Company's Phase I/IIa results. Our ReJoin® human adipose-derived mesenchymal progenitor cell (haMPC) therapy for KOA is an interventional therapy using proprietary device, process, culture and medium:

- Obtain adipose (fat) tissue from the patient using our CFDA approved medical device, the A-Stromal™ Kit;
- Expand haMPCs using our proprietary culture medium (serum-free and antibiotics-free); and
- Formulated for ReJoin therapy using our proprietary formulation.

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

In January 2016, we launched the Allogeneic KOA Phase I Trial in China to evaluate the safety and efficacy of AlloJoin™, an off-the shelf allogeneic adipose derived progenitor cell (haMPC) therapy for the treatment of KOA. On August 5, 2016 we completed patient treatment for the Allogeneic KOA Phase I trial. Patients will be monitored over the next 12 months for safety, as well as efficacy signs.

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 the second arthroscopic look, we have determined to terminate the study.

The unique lines of adult adipose-derived stem cells and the immune cell therapies enable us to create multiple cell formulations in treating specific medical conditions and diseases, as well as applying single cell types in a specific treatment protocol. Management believes that our adult adipose-derived line will become commercially viable and market-ready in China within three to four years. In addition, we plan to assess and initiate cancer clinical trials leading to commercialization using safe and most effective therapy or combination therapies. The quality management systems of CBMG Shanghai and CBMG Wuxi were issued a Certificate of ISO-9001:2008 by SGS /ANAB (ANSI-ASQ National Accreditation Board). Our facility in Shanghai was issued a Certificate of Compliance by ENV Services, Inc., and ISO Inspection Service Provider that (i) its rooms 1-7, 10 are certified to ISO Class 7 per ISO-14644 in accordance with cGMP; (ii) its biological safety cabinets are certified per NSF/ANSI 49 and to ISO Class 5; and (iii) its instrumentation calibration has been certified to perform in accordance with ANSI/NCSL Z-540-1 and document in accordance with 10CFR21. Our facility in Shanghai was issued a Testing Report by Shanghai Food and Drug Packaging Material Control Center concluding that some testing items of the cleanrooms are in compliance with the Good Manufacturing Practice for Drugs (2010 Revision) of China. The cleanrooms in Beijing are certified to meet the standard of CNAS L1669; and Wuxi has been certified to meet the CNAS L0221 standard.

In addition to standard protocols, we use proprietary processes and procedures for manufacturing our cell lines, comprised of:

- Banking processes that ensure cell preservation and viability;

- DNA identification for stem cell origin; and

- Bio-safety testing at independently certified laboratories.

Regenerative Medicine and Cell Therapy

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

Regenerative medicine can be categorized into major subfields as follows:

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

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

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

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

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

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

Recent Developments in Cancer Cell Therapy

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

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

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

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

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

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

In 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 Company believes that its study is distinguishable from Juno Therapeutics and plans to continue to monitor any toxicities associated with the study.

Market for Cell-Based Therapies

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

The forecast is that in the United States, shipments of treatments with stem cells or instruments which concentrate stem cell preparations for injection into painful joints will fuel an overall increase in the use of stem cell based treatments and an increase to \$5.7 billion in 2020, with key growth areas being Spinal Fusion, Sports Medicine and Osteoarthritis of the joints. According to Centers for Disease Control and Prevention. Prevalence of doctor-diagnosed arthritis and arthritis-attributable activity limitation United States. 2010-2012, Osteoarthritis (OA) is a chronic disease that is characterized by degeneration of the articular cartilage, hyperosteoarthritis, 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 data published in the executive summary of the 2014 New York Stem Cell Summit Report, the U.S. specific addressable market in KOA is \$83 million, estimated to grow to \$1.84 billion by 2020. According to International Journal of Rheumatic Diseases, 2011 there are over 57 million people with KOA in China.

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

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

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

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

Our Strategy

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

We are developing our business in cell therapeutics and capitalizing on the increasing importance and promise that adult stem cells have in regenerative medicine. Our most advanced candidate involves adipose-derived mesenchymal stem cells to treat KOA. Based on current estimates, we expect our biomedicine business to generate revenues primarily through the development of therapies for the treatment of KOA within the next three to four years.

Presently we have two KOA cell therapy clinical studies in China, a completed Phase IIb autologous study and an on-going Phase I allogeneic study. If and when either therapy obtains regulatory approval in the PRC, we will be able to market and offer the therapy for clinical use. Our focus is on the latest translational stages of product development, principally from the pre-clinical stage to regulatory approval and commercialization of new therapies.

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

CBMG initially plans to use its centralized manufacturing facility located in Shanghai to service multiple hospitals within 200 km of the facility. We aim to complete clinical trials for our KOA therapy candidate as soon as practicable. Our goal is to first obtain regulatory permission for commercial use of the therapy for the respective hospitals in which the trials are being conducted. CBMG plans to scale up its customer base by qualifying multiple additional hospitals for the post-trial use of therapies, once approved, by following regulatory guidelines. Based on current regulation and estimates, we expect our biomedicine business to generate revenue primarily from the development of therapies for the treatment of KOA within the next four to six years.

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

are undergoing therapy.

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

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

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

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

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

The protocol of allogeneic haMPC therapy for KOA has been approved by Shanghai Renji Hospital's Institutional Review Board for clinical studies. Once the studies are completed, the clinical data will be analyzed by qualified third party statisticians and reports will be published.

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

In total, our facilities operating under GMP have over 23,000 sq. ft. space with the capacity for twelve independent cell production lines. We intend to continue to evaluate the expansion of our cell manufacturing capacity and additional capabilities.

Most importantly, our management team members have more than 20 ~ 30 years of relevant experience in China, the European Union, and the United States. All of these factors make CBMG a high quality cell products manufacturer in China.

Our Targeted Indications and Potential Therapies

Knee Osteoarthritis (KOA)

We are currently pursuing two primary therapies for the treatment of KOA: our ReJoin ® 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 24-week follow-up clinical data showed ReJoin ® therapy to be both safe and effective. We published 48 weeks follow-up data of the Phase I/IIa on December 5, 2014. The 48 weeks data indicated that patients have reported a decrease in pain and a significant improvement in mobility and flexibility, while the clinical data shows our ReJoin ® regenerative medicine treatment to be safe.

In the second quarter of 2014, we completed patient enrollment for the Phase IIb clinical trial of ReJoin® for KOA. The multi-center study has enrolled 53 patients to participate in a randomized, single blind and controlled trial. We announced positive Phase IIb 48-week follow-up data in January 2016, with statistical significant evidence that ReJoin enhanced cartilage regeneration, which concluded the planned phase IIb trial.

In January 2016, we launched the Allogeneic KOA Phase I Trial in China to evaluate the safety and efficacy of AlloJoin™, an off-the shelf allogeneic adipose derived progenitor cell (haMPC) therapy for the treatment of KOA. On August 5, 2016 we completed patient treatment for the Allogeneic KOA Phase I trial. Patients will be monitored over the next 12 months for safety, as well as efficacy signs.

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

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

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

In order to bring haMPC-based KOA therapy to market, our market strategy is to: (a) file IND with CDE through biomedicine regulatory path and conduct necessary registration trials (b) file NDA to get marketing approval.

Our competitors are pursuing treatments for osteoarthritis with knee cartilage implants or other cell origins. 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, from which the stem cells are isolated, cultured, and re-injected into the patient. The injections are designed to induce the body’s secretion of growth factors and recruitment of endogenous stem cells, 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 well-studied lenti-viral vector and second-generation CAR design, which is used by most of the current trials and studies. We rigorously select the patient population for each 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.

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

Solid tumors pose more challenge 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. CAR-T therapy can successfully treat hematopoietic cancers because the therapy can deplete all B cells or T cells including normal and cancer cells in leukemia and lymphoma. When the stem cells are not targeted these stem cells can regenerate normal B and T cells. In contrast, effective tumor specific antigens found to be less to target in solid tumors. When the drugs kill tumor cells, they also kill the normal cells to a certain degree, leading to different degrees of toxicity. We will continue to make an effort to develop CART or other cell based therapies to target solid tumors.

Human Adipose-Derived Mesenchymal Progenitor Cells (haMPC)

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

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

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

Immune Cell Therapy, Adoptive T cell

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

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

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

Tumor Cell Specific Dendritic Cells (TC-DC)

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

Our strategy is, through the acquisition of AG and the technologies and pre-clinical and clinical data of University of the South Florida and PLAGH, to become an immune cell business leader in the China cancer therapy market and specialty pharmaceutical market by utilizing CBMG’s attractiveness as a NASDAQ listed company to consolidate key China immune cell technology leaders with fortified intellectual property and ramp up revenue with first mover’s advantage in a safe and efficient manner. The Company plans to accelerate cancer trials by using the knowledge and experience gained from the Company’s ongoing KOA trials and the recent, CAR-T and Tcm technologies. Immune cell therapies have not been codified by any of the Chinese regulatory agencies. China has a bifurcated regulatory pathway, which is different than the singular path in the United States. Immune cell therapy is considered in China as a Class III medical technology and it remains unclear if it will be offered U.S.FDA-liked Fast Track designation as maintenance therapy in subjects with advanced cancer who have limited options following surgery and front-line platinum/taxane chemotherapy to improve their progression-free survival. By applying U.S. SOP and protocols and following authorized treatment plans in China, we believe we are differentiated from our competition as we believe we have first mover’s advantage and a fortified barrier to entry. In addition, we began to review the feasibility of performing synergistic U.S. clinical studies.

Critical Accounting Policies

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

During the three and nine months ended September 30, 2016, 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, 2015, except for as below:

Goodwill and Other Intangibles

Goodwill represents the excess of the cost of assets acquired over the fair value of the net assets at the date of acquisition. Intangible assets represent the fair value of separately recognizable intangible assets acquired in connection with the Company's business combinations. The Company evaluates its goodwill and other intangibles for impairment on an annual basis or whenever events or circumstances indicate that impairment may have occurred. As of September 30, 2016 and December 31, 2015, the goodwill is \$7,678,789, which all derived from the acquisition of Agreeen.

As stipulated in ASC 350-20-35-3A, an entity may assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, including goodwill. During the reporting period, the Company ceased its cooperation with the Jihua Hospital (its largest customer) and several agents and was not actively pursuing the fragmented technical services opportunities since the second quarter of 2016, net sales and revenue for the three months ended June 30, 2016 and September 30, 2016 significantly decreased accordingly. It considered as triggering event indicating the goodwill impairment test was required at end of the reporting period. The Company therefore proceeded with "Step 1" goodwill impairment test based on ASC 350-20-35-4 thru 35-8A. The first step of the goodwill impairment test, used to identify potential impairment, compares the fair value of a reporting unit with its carrying amount, including goodwill. The Company is now prioritizing cancer therapeutic, and focusing the clinical efforts on developing CAR-T technologies, Vaccine, Tcm, and TCR clonality technologies, all long-lived assets (including goodwill) are considered as an asset group under the same reporting unit for the Company's research and development activities purpose. The Company's market capitalization as at the balance sheet date would fairly reflect the fair value of the Company's research and development efforts so as to provide an indication of whether the goodwill is subject to the impairment loss. Our market capitalization exceeds the carrying amount of net assets (including goodwill) of the Company, we considered first step of goodwill impairment test passed and no second step of goodwill impairment test shall be performed to measure the amount of impairment loss. No impairment loss of goodwill is considered to be required as of September 30, 2016.

Other intangibles mainly consists of knowhow, technologies, patent, licenses acquired and purchased software. The Company reviews the carrying value of long-lived assets to be held and used, including other intangible assets subject to amortization, when events and circumstances warrants such a review. As aforementioned, all long-lived assets (including other intangibles) are considered as an asset group under the same reporting unit for the Company's research and development activities purpose. Our market capitalization exceeds the carrying amount of net assets (including other intangibles) of the Company, no impairment of other intangibles is considered to be required as of September 30, 2016.

The Company is an expanding company with a short operating history, accordingly, the Company faces some potential events and uncertainties encountered by companies in the earlier stages of development and expansion, such as: (1) continuing market acceptance for our product extensions and our services; (2) changing competitive conditions, technological advances or customer preferences that could harm sales of our products or services; (3) maintaining effective control of our costs and expenses. If the Company is not able to meet the challenge of building our businesses and managing our growth, the likely result would be slowed growth, lower margins, additional operational costs and lower income, and a risk of impairment charge of intangibles in future filings.

Results of Operations

Below is a discussion of the results of our operations for the three and nine months ended September 30, 2016 and 2015. 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 September 30, 2016 to Three Months Ended September 30, 2015

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 September 30, 2016	Three Months Ended September 30, 2015
Net sales and revenue	\$10,012	\$624,907
Operating expenses:		
Cost of sales	9,128	443,416
General and administrative	2,790,305	3,467,184
Selling and marketing	124,143	190,152
Research and development	2,897,736	2,190,240
Impairment of investments	4,611,714	-
Total operating expenses	10,433,026	6,290,992
Operating loss	(10,423,014)	(5,666,085)
Other income (expense)		
Interest income	22,338	8,386
Other income (expense)	(17,314)	492,101
Total other income, net	5,024	500,487
Loss before taxes	(10,417,990)	(5,165,598)
Income taxes credit (provision)	(243,230)	23,400
Net loss	\$(10,661,220)	\$(5,142,198)
Other comprehensive income (loss):		
Cumulative translation adjustment	(58,824)	(225,198)
Unrealized gain (loss) on investments, net of tax	-	(1,520,000)
Reclassification adjustments, net of tax, in connection with other-than-temporary impairment of investments	(5,557,939)	-
Total other comprehensive income (loss):	(5,616,763)	(1,745,198)
Comprehensive gain (loss)	\$(16,277,983)	\$(6,887,396)

Net loss per share:

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Basic	\$(0.75)	\$(0.44)
Diluted	\$(0.75)	\$(0.44)

Weighted average common shares outstanding:

Basic	14,128,465	11,622,756
Diluted	14,128,465	11,622,756

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

Three Months Ended September 30, 2016 Three Months Ended September 30, 2015

Cost of sales	11,765	42,272
General and administrative	900,936	1,464,764
Selling and marketing	28,368	66,962
Research and development	590,795	480,907
	1,531,864	2,054,905

Results of Operations

Net sales and revenue

	2016	2015	Change	Percent
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For the three months ended September 30,	\$10,012	\$624,907	\$(614,895)	(98)%
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All the revenue was derived from cell therapy technology service for the three months ended September 30, 2016 and 2015. The decrease in revenue is the result of prioritizing cancer therapeutic technologies and focusing our clinical efforts on developing CAR-T technologies, Vaccine, Tcm, and TCR clonality technologies. As a result of not focusing on the cell therapy technology service revenue, in 2nd quarter, 2016 the Company ceased its cooperation with the Jihua Hospital and several agents.

Cost of Sales

	2016	2015	Change	Percent
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For the three months ended September 30,	\$9,128	\$443,416	\$(434,288)	(98)%
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The cost of sales decreased in line with the sales.

General and Administrative Expenses

	2016	2015	Change	Percent
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For the three months ended September 30,	\$2,790,305	\$3,467,184	\$(676,879)	(20)%
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Decreased expenses in 2016 were primarily attributed to the facts below:

o

A decrease in stock-based compensation expense of \$564,000, which primarily resulted from: i) forfeiture of the options in connection with the resignation of Wei Cao as the CEO of the Company in February 2016 and as director in May 2016. For further details please refer to Item 1 Note 13-Commitments and Contingencies - Service Agreement with Wei (William) Cao as reported in the Company's quarterly report on Form 10-Q for the three-months ended March 31, 2016; ii) the issuance of a large amount of options in the first quarter of 2013, most of which vested over 3 years. With the end of vesting periods, the stock-based compensation expense decreased significantly from the second

quarter of 2016.

o

A decrease in salary of \$154,000, which primarily resulted from the resignations of the Company's CEO and chairman in first quarter 2016.

o

A decrease in rental expense of \$90,000, which primarily resulted from the ramping up of the new Beijing facility in January 2016. The related rental expense was recorded in cost of sales and R&D expenses instead of general and administrative expense; and

o

Offset by an increase in legal, audit and other professional fees of \$135,000 resulting from costs associated with the ATM filing in the second quarter 2016 compared with same period in 2015.

Selling and Marketing Expenses

	2016	2015	Change	Percent
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For the three months ended September 30,	\$124,143	\$190,152	\$(66,009)	(35)%
------------------------------------------	-----------	-----------	------------	-------

The selling and marketing expenses decrease is due to the decline of stock-based compensation of \$39,000 and salary expense of \$30,000.

Research and Development Expenses

	2016	2015	Change	Percent
--	------	------	--------	---------

For the three months ended September 30,	\$2,897,736	\$2,190,240	\$707,496	32%
------------------------------------------	-------------	-------------	-----------	-----

Research and development costs increased by approximately \$707,000 in the three months ended September 30, 2016 as compared to the three months ended September 30, 2015. The increase was primarily attributed to the facts below:

o

An increase in payroll expenses of \$350,000 in line with the increase of our immunotherapy research and development team; the total headcount of our R&D team increased from 46 as of September 30, 2015 to 76 as of September 30, 2016;

o

An increase in depreciation and amortization of \$187,000, which was mainly attributed to the technology obtained from 301 Hospital in June 2015 and newly purchased equipment for immunotherapy research and development; and

o

An increase in stock-based compensation expense of \$110,000.

Impairment of Investments

	2016	2015	Change	Percent
--	------	------	--------	---------

For the three months ended September 30,	\$4,611,714	\$-	\$4,611,714	N/A
------------------------------------------	-------------	-----	-------------	-----

The impairment of investments for the three months ended September 30, 2016 is attributed to the recognition of other than temporary impairment on the value of shares in two investments. No such expense existed in the same period in 2015. The impairment on investments was primarily attributed to the valuation loss for the stock of Arem Pacific

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Corporation, which share price recently significantly dropped. The stock of Arem Pacific Corporation (ARPC) held by us are illiquid restricted shares that are very thinly traded on the OTC Markets, we consider that it indicates the likelihood that the impairment is other-than-temporary.

Operating Loss

2016	2015	Change	Percent
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For the three months ended September 30,	\$(10,423,014)	\$(5,666,085)	\$(4,756,929)	84%
------------------------------------------	----------------	---------------	---------------	-----

The increase in the operating loss for the three months ended September 30, 2016 as compared to the same period in 2015 was primarily due to changes in revenues, research and development expenses and impairment of investments, each of which is described above.

Total Other Income, Net

	2016	2015	Change	Percent
--	------	------	--------	---------

For the three months ended September 30,	\$5,024	\$500,487	\$(495,463)	(99)%
------------------------------------------	---------	-----------	-------------	-------

Other income, net for the three months ended September 30, 2016 was primarily interest income of \$22,000, third party R&D subsidy of \$40,000 and government subsidy of \$25,000 and netting of the charity donation of \$78,000.

Other income, net for the three months ended September 30, 2015 was primarily decrease in fair value of accrued expenses for the acquisition of intangible assets of \$414,000, net foreign exchange gain of \$79,000 and interest income of \$8,000. On June 26, 2015, the Company completed its acquisition of the certain license rights to technology and know-how from Blackbird and entered into an Assignment and Assumption Agreement to acquire all of Blackbird's right, title and interest in and to the exclusive worldwide license to a CD40LG VAX vaccine from the University of South Florida. According to the Asset Purchase Agreement, 28,120 shares of Company common stock were issued as part of the consideration of this transaction. In addition, 18,747 shares of Company common stock (equal to \$700,000 based on the 20-day volume-weighted average price of the Company's common stock on the closing date of this transaction) were delivered to Blackbird on the 6 month anniversary of the closing date upon satisfaction of certain conditions. The above mentioned shares were revalued according to the fair market value as of the balance sheet date and resulted in other income of \$414,000.

Income Taxes Credit (Provision)

	2016	2015	Change	Percent
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For the three months ended September 30,	\$(243,230)	\$23,400	\$(266,630)	(1139)%
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While we have optimistic plans for our business strategy, we determined that a valuation allowance was necessary given the current and expected near term losses and the uncertainty with respect to our ability to generate sufficient profits from our business model. Therefore, we established a valuation allowance for deferred tax assets other than the extent of the benefit from other comprehensive income. Income tax expense for three months ended September 30, 2016 mainly represents the reversal of deferred income tax as a result of tax benefit of other comprehensive income previously recognized. Income tax expense for three months ended September 30, 2015 represents PRC tax benefit of \$24,757 and US state tax expense of \$1,357.

Net Loss

	2016	2015	Change	Percent
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For the three months ended September 30, \$(10,661,220) \$(5,142,198) \$(5,519,022) 107%

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

Comprehensive Gain (Loss)

2016	2015	Change	Percent
------	------	--------	---------

For the three months ended September 30, \$(16,277,983) \$(6,887,396) \$(9,390,587) 136%

Comprehensive net loss for three months ended September 30, 2016 includes reclassification adjustments, net of tax, of approximately \$5,558,000, in connection with other-than-temporary impairment of investments ,and a currency translation net loss of approximately \$59,000 combined with the changes in net income. The reclassification adjustment was attributed to the valuation loss of approximately \$6,090,000 for the stock investment in ARPC, which indicates the likelihood of the impairment is other-than-temporary.

Comparison of Nine Months Ended September 30, 2016 to Nine Months Ended September 30, 2015

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

	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Net sales and revenue	\$570,102	\$1,885,256
Operating expenses:		
Cost of sales	835,908	1,335,707
General and administrative	8,638,877	9,915,956
Selling and marketing	342,377	500,393
Research and development	8,268,953	4,968,352
Impairment of investments	4,611,714	123,428
Total operating expenses	22,697,829	16,843,836
Operating loss	(22,127,727)	(14,958,580)
Other income (expense)		
Interest income	57,678	29,417
Other income (expense)	6,652	502,921
Total other income, net	64,330	532,338
Loss before taxes	(22,063,397)	(14,426,242)
Income taxes credit (provision)	(5,218)	(29,602)
Net loss	\$(22,068,615)	\$(14,455,844)
Other comprehensive income (loss):		
Cumulative translation adjustment	(314,189)	(163,353)
Unrealized gain (loss) on investments, net of tax	5,300,633	6,543,460
Reclassification adjustments, net of tax, in connection with other-than-temporary impairment of investments	(5,557,939)	-
Total other comprehensive income (loss):	(571,495)	6,380,107
Comprehensive gain (loss)	\$(22,640,110)	\$(8,075,737)
Net loss per share:		
Basic	\$(1.67)	\$(1.27)
Diluted	\$(1.67)	\$(1.27)
Weighted average common shares outstanding:		
Basic	13,253,290	11,399,958
Diluted	13,253,290	11,399,958

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

	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Cost of sales	8,014	110,326
General and administrative	2,254,498	3,837,123
Selling and marketing	32,353	162,997
Research and development	1,649,260	1,562,509
	3,944,125	5,672,955

Results of Operations

Net sales and revenue

	2016	2015	Change	Percent
--	------	------	--------	---------

For the nine months ended September 30,	\$570,102	\$1,885,256	\$(1,315,154)	(70)%
-----------------------------------------	-----------	-------------	---------------	-------

All the revenue was derived from cell therapy technology service for the nine months ended September 30, 2016 and 2015. The decrease in revenue is the result of prioritizing cancer therapeutic technologies and focusing our clinical efforts on developing CAR-T technologies, Vaccine, Tcm and TCR clonality technologies. As a result of not focusing on the cell therapy technology service revenue, in the second quarter of 2016 the Company ceased its cooperation with the Jihua Hospital and several agents.

Cost of Sales

	2016	2015	Change	Percent
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For the nine months ended September 30,	\$835,908	\$1,335,707	\$(499,799)	(37)%
-----------------------------------------	-----------	-------------	-------------	-------

The cost of sales decreased in line with the sales. As fixed costs, such as rental and staff costs etc., accounts for a majority of the cost of sales, the cost of sales didn't decrease as much as sales.

General and Administrative Expenses

	2016	2015	Change	Percent
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For the nine months ended September 30,	\$8,638,877	\$9,915,956	\$(1,277,079)	(13)%
-----------------------------------------	-------------	-------------	---------------	-------

Decreased expenses in 2016 were primarily attributed to below facts:

o

A decrease in stock-based compensation expense of \$1,583,000, which primarily resulted from: i) forfeiture of the options in connection with the resignation of Wei Cao as the CEO of the Company in February 2016 and as director in May 2016. For further details please refer to Item 1 Note 13-Commitments and Contingencies - Service Agreement with Wei (William) Cao as reported in the Company's quarterly report on Form 10-Q for the three-month ended March 31, 2016; ii) the issuance of a large amount of options in the first quarter of 2013, most of which vested over 3 years.

With the end of vesting periods, the stock-based compensation expense decreased significantly in 2016; and
o

Offset by an increase in legal, audit and other professional fees of \$359,000 related to the Company's Registration Statements on Forms S-3 and S-8 filing in 2016.

Selling and Marketing Expenses

2016	2015	Change	Percent
------	------	--------	---------

For the nine months ended September 30,	\$342,377	\$500,393	\$(158,016)	(32)%
-----------------------------------------	-----------	-----------	-------------	-------

The selling and marketing expenses decreased was mainly attributed to the decrease in stock-based compensation of \$131,000. This mainly resulted from the fact that one sales vice president resigned in April 2016 and part of her options were forfeited.

Research and Development Expenses

	2016	2015	Change	Percent
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For the nine months ended September 30,	\$8,268,953	\$4,968,352	\$3,300,601	66%
-----------------------------------------	-------------	-------------	-------------	-----

Research and development costs increased by approximately \$3,301,000 in the nine months ended September 30, 2016 as compared to the nine months ended September 30, 2015. The increase was primarily attributed to the facts below:

- o An increase in payroll expenses of \$1,367,000 in line with the increase of our immunotherapy research and development team. Total headcount of our R&D team increased from 46 as of September 30, 2015 to 76 as of September 30, 2016;
- o An increase in depreciation and amortization of \$529,000, which was mainly attributed to the technology obtained from 301 Hospital in June 2015 and newly purchased equipment for immunotherapy research and development;
- o An increase in clinical studies expenditure of \$525,000;
- o An increase in raw material consumption of \$435,000;
- o An increase in rental expense of \$153,000;
- o An increase in travelling expense of \$104,000; and
- o An increase in stock-based compensation of \$87,000.

Impairment of Investments

	2016	2015	Change	Percent
--	------	------	--------	---------

For the nine months ended September 30,	\$4,611,714	\$123,428	\$4,488,286	3636%
-----------------------------------------	-------------	-----------	-------------	-------

The impairment of investments for the nine months ended September 30, 2016 and 2015 is attributed to the recognition of other than temporary impairment on the value of shares in investments. The impairment on investments was primarily attributed to the valuation loss for the stock investment in Arem Pacific Corporation, which share price recently significantly dropped. The stock of ARPC held by us are illiquid restricted shares that are very thinly traded on the OTC Markets, we consider that it indicates the likelihood that the impairment is other-than-temporary.

Operating Loss

	2016	2015	Change	Percent
--	------	------	--------	---------

For the nine months ended September 30,	\$(22,127,727)	\$(14,958,580)	\$(7,169,147)	48%
-----------------------------------------	----------------	----------------	---------------	-----

The increase in the operating loss for the nine months ended September 30, 2016 as compared to the same period in 2015 is primarily due to changes in revenues, research and development expenses and impairment of investments, each of which is described above.

Total Other Income, Net

	2016	2015	Change	Percent
--	------	------	--------	---------

For the nine months ended September 30,	\$64,330	\$532,338	\$(468,008)	(88)%
-----------------------------------------	----------	-----------	-------------	-------

Other income, net for the nine months ended September 30, 2016 was primarily interest income of \$58,000, third party R&D subsidy of \$40,000, foreign exchange gain and losses of \$21,000 and government subsidy of \$28,000, netting of the charity donation of \$78,000.

Other income, net for the three months ended September 30, 2015 was primarily decrease in fair value of accrued expenses for the acquisition of intangible assets of \$414,000, net foreign exchange gain of \$79,000 and interest income of \$8,000. On June 26, 2015, the Company completed its acquisition of the certain license rights to technology and know-how from Blackbird and entered into an Assignment and Assumption Agreement to acquire all of Blackbird's right, title and interest in and to the exclusive worldwide license to a CD40LGVAX vaccine from the University of South Florida. According to the Asset Purchase Agreement, 28,120 shares of Company common stock were issued as part of the consideration of this transaction. In addition, 18,747 shares of Company common stock (equal to \$700,000 based on the 20-day volume-weighted average price of Company's common stock on the closing date of this transaction) were delivered to Blackbird on the 6 month anniversary of the closing date upon satisfaction of certain conditions. The above mentioned shares were revalued according to the fair market value as of the balance sheet date and resulted in the other income of \$414,000.

Income Taxes Credit (Provision)

2016	2015	Change	Percent
------	------	--------	---------

For the nine months ended September 30, \$(5,218) \$(29,602) \$24,384 (82)%

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 nine months ended September 30, 2016 all represents US state tax. Income tax for nine months ended September 30, 2015 represents PRC tax of \$24,995 and the US state tax of \$4,607.

Net Loss

2016	2015	Change	Percent
------	------	--------	---------

For the nine months ended September 30, \$(22,068,615) \$(14,455,844) \$(7,612,771) 53%

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

Comprehensive Loss

2016	2015	Change	Percent
------	------	--------	---------

For the nine months ended September 30, \$(22,640,110) \$(8,075,737) \$(14,564,373) 180%

Comprehensive net loss for nine months ended September 30, 2016 includes unrealized net gain on investments of approximately \$5,301,000, reclassification adjustments, net of tax, of approximately \$5,558,000, in connection with other-than-temporary impairment of investments and a currency translation net loss of approximately \$314,000 combined with the changes in net income. The unrealized gain and reclassification adjustments on investments were primarily attributed to the valuation change for the stock investment in ARPC.

Liquidity and Capital Resources

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We had working capital of \$43,419,321 as of September 30, 2016 compared to \$13,675,034 as of December 31, 2015. Our cash position increased to \$44,115,886 at September 30, 2016 compared to \$14,884,597 at December 31, 2015, as we had cash generated from financing activities due to a private placement financing in February and April 2016 for gross proceeds of approximately \$43 million through the sale of 2,270,000 shares of common stock, partially offset by cash used in operating and investment activities.

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

Net cash used in operating activities was approximately \$12,072,000 and \$8,572,000 for the nine months ended September 30, 2016 and 2015, respectively. The following table reconciles net loss to net cash used in operating activities:

For the nine months ended September 30,	2016	2015	Change
Net loss	\$(22,068,615)	\$(14,455,844)	\$(7,612,771)
Non cash transactions	10,712,136	6,925,325	3,786,811
Changes in operating assets, net	(715,890)	(1,041,692)	325,802
Net cash used in operating activities	\$(12,072,369)	\$(8,572,211)	\$(3,500,158)

The 2016 change in non-cash transaction was primarily due to the increase in impairment of investments of \$4,488,000, increase in depreciation and amortization of \$497,000, decrease in fair value of accrued expenses for the acquisition of intangible assets of \$414,000, net of decrease in share based compensation of \$1,729,000 compared with same period in 2015.

Net cash used in investing activities was approximately \$1,653,000 and \$5,495,000 in the nine months ended September 30, 2016 and 2015, respectively. These amounts were primarily the result of purchases of fixed assets and intangible assets.

Cash provided by financing activities was approximately \$43,123,000 and \$19,444,000 in the nine months ended September 30, 2016 and 2015, respectively. These amounts were mainly attributable to the proceeds received from the issuance of common stock.

Liquidity and Capital Requirements Outlook

Excluding any potential sponsorship of a CD40LGVAX Trial in the U.S. and other regions outside of China CD40LGVAX Trial, we anticipate that the Company will require approximately \$31 million in cash to operate as planned in the coming 12 months. Of this amount, approximately \$22 million will be used to operate our facilities and offices, including but not limited to payroll expenses, rent and other operating costs, and to fund our research and development as we continue to develop our products through the clinical study process. Approximately \$9 million will be used as capital expenditure in machinery, equipment and facilities to expand our immune cell therapy business and CAR-T research and development, although we may revise these plans depending on the changing circumstances of our biomedicine business.

We expect to rely on current cash balances that we hold to provide for these capital requirements. We do not intend to use, and will not rely on our holdings in securities to fund our operations. One of our 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 prospectus 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 delinquent in its SEC filings for multiple periods. We do not know whether we can liquidate our 8,000,000 shares of Arem Pacific stock or the 2,057,131 shares of Wonder stock or any of our other portfolio securities, or if liquidated, whether the realized amount will be meaningful at all. As a result, we have written down above stocks to their fair value.

On April 15, 2016, the Company completed the second and final closing of a financing transaction with Wuhan Dangdai Science & Technology Industries Group Inc., pursuant to which the Company sold to the Investor 2,006,842 shares of the Company’s common stock, par value \$0.001 per share, for approximately \$38,130,000 in gross proceeds. As previously disclosed in a Current Report on Form 8-K filed on February 10, 2016, the Company conducted the initial closing of the financing on February 4, 2016. The aggregate gross proceeds from both closings in the financing totaled approximately \$43,130,000. In the aggregate, 2,270,000 shares of Common Stock were issued in the financing. On March 22, 2016, the Company filed a registration statement on Form S-3 to offer and sell from time to time, in one or more series, any of the securities of the Company, for total gross proceeds up to \$150,000,000. On June 17, 2016, the SEC declared the S-3 effective; we have yet to utilize any of the \$150,000,000 registered under the S-3. As we continue to incur losses, achieving profitability is dependent upon the successful development of our immune therapy business and commercialization of our technology in research and development phase, which is a number of years in the future. Once that occurs, we will have to achieve a level of revenues adequate to support our cost structure. We may never achieve profitability, and unless and until we do, we will continue to need to raise additional capital. Management intends to fund future operations through additional private or public debt or equity offerings, and may seek additional capital through arrangements with strategic partners or from other sources.

Our medium to long term capital needs involve the further development of our biomedicine business, and may include, at management’s discretion, new clinical trials for other indications, strategic partnerships, joint ventures, acquisition of licensing rights from new 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 biomedicine business, we may find it challenging to raise capital on terms that are acceptable to us, or at all. Furthermore, our negotiating position in the capital raising process may worsen as we consume our existing resources. Investor interest in a company such as ours is dependent on a wide array of factors, including the state of regulation of our industry in China (e.g. the policies of MOH and the CFDA), the U.S. and other countries, political headwinds affecting our industry, the investment climate for issuers involved in businesses located or conducted within China, the risks associated with our corporate structure, risks relating to our partners, licensed intellectual property, as well as the condition of the global economy and financial markets in general. Additional equity financing may be dilutive to our stockholders; debt financing, if available, may involve significant cash payment obligations and covenants that restrict our ability to operate as a business; our stock price may not reach levels necessary to induce option or warrant exercises; and asset sales may not be possible on terms we consider acceptable. If we are unable to raise the capital necessary to meet our medium- and long-term liquidity needs, we may have to delay or discontinue certain clinical trials, the licensing, acquisition and/or development of cell therapy technologies, and/or the expansion of our biomedicine business; or we may have to raise funds on terms that we consider unfavorable.

Off Balance Sheet Transactions

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

Contractual Obligations

A summary of the Company's contractual obligations was included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2015. The Company's contractual obligations and other commercial commitments did not change materially between December 31, 2015 and September 30, 2016.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Interest Rate Risk

The Company's interest rate risk arises primarily from cash deposited at banks and the Company doesn't have any interest-bearing long-term payable/ borrowing, therefore the 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 September 30, 2016 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 September 30, 2016. 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 September 30, 2016	
	RMB	USD
Cash and cash equivalents	924,848	402,864
Other current liabilities	-	(16,666)
Net exposure arising from recognised assets and liabilities	924,848	386,198

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 September 30, 2016

increase/(decrease) in foreign exchange rates Effect on net loss (Expressed in USD)

RMB (against USD) 5%	26,933
-5%	(26,933)

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 September 30, 2016, 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

On April 21, 2015, a putative class action complaint was filed against the Company in the U.S. District Court for the Northern District of California captioned *Bonnano v. Cellular Biomedicine Group, Inc.*, 3:15-cv-01795-WHO (N.D. Ca.). The complaint also named Wei Cao, the Company's Chief Executive Officer, and Tony Liu, the Company's Chief Financial Officer, as defendants. The complaint alleged that during the class period, June 18, 2014, through April 7, 2015, the Company made material misrepresentations in its periodic reports filed with the SEC. The complaint alleged a cause of action under Section 10(b) of the Securities Exchange Act of 1934 (the "1934 Act") against all defendants and under Section 20(a) of the 1934 Act against the individual defendants. The complaint did not state the amount of the damages sought.

On June 3, 2015, defendants were served. On June 29, 2015, the Court ordered, as stipulated by the parties, that defendants are not required to respond to the initial complaint in this action until such time as a lead plaintiff and lead counsel have been appointed and a consolidated complaint has been filed. The deadline for filing motions for the appointment of lead plaintiff and selection of lead counsel was June 22, 2015. On that date, one motion was filed by the Rosen Law Firm on behalf of putative plaintiff Michelle Jackson. On August 3, 2015, having received no opposition, the Court appointed Jackson as lead plaintiff and the Rosen Law Firm as class counsel. As stipulated among the parties, Jackson filed an amended class action complaint on September 17, 2015.

The amended complaint names ten additional individuals and entities as defendants ("additional defendants"), none of whom were affiliated with the Company, and asserted an additional claim under Section 10(b) and Rule 10b-5(a) and (c) thereunder that the Company purportedly engaged in a scheme with the additional defendants to promote its securities. The amended complaint did not assert any claims against Mr. Liu.

On January 19, 2016, the Company filed a motion to dismiss, which was argued on April 20, 2016. On May 20, 2016, the Court granted the motion to dismiss with leave to amend. On June 6, 2016, Plaintiffs filed a Second Amended Complaint, and on June 30, 2016, the Company filed a motion to dismiss. Oral argument on the motion was held on August 17, 2016. On September 2, 2016, the Court dismissed the Second Amended Complaint with prejudice and entered judgment against Plaintiffs. On September 16, 2016, Plaintiffs filed a Notice of Appeal to the U.S. Court of Appeals for the Ninth Circuit. Plaintiffs must file their opening brief on December 27, 2016, to proceed with the appeal.

The Company believes that the claims do not have merit and intends to vigorously defend against them. At this stage of the proceedings it is not possible to evaluate the likelihood of an unfavorable outcome or to estimate the range of potential loss.

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

ITEM 1A. RISK FACTORS

During the three months ended September 30, 2016, 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, 2015 except the risks set forth below.

Our relationship with our controlled VIE entity, CBMG Shanghai, through the VIE agreements, is subject to various operational and legal risks.

Historically, the equity interests of our controlled VIE entity were held by Mr. Wei Cao, our former chief executive officer and director, and Mr. Chen Mingzhe. On February 6, 2016, Mr. Cao resigned as our chief executive officer, and on May 1, 2016, Mr. Cao resigned from our Board and ceased to serve as a director of the Company. Subsequent to Mr. Cao's resignation, Mr. Cao initiated procedures to transfer his equity interests in the VIE entity to Mr. Lu Junfeng and Mr. Chen Mingzhe.

The registrations for the equity transfer from Mr. Wei to Messrs. Chen and Lu and for the new pledge of equity interests of the VIE entity to our wholly-owned subsidiary, Cellular Biomedicine Group Ltd. (Wuxi), are still in the process. As the pledge cannot be registered unless and until the registration of the above equity transfer is completed and such pledge shall become effective only after the completion of its registration in accordance with laws in China, we plan to apply for such pledge immediately after the completion of the registration for the equity transfer. However, during the transitional period before the pledge is registered and effective, there is a risk that Messrs. Chen and Lu may reduce or eliminate their ownership of the equity interests of the VIE entity by transferring their interests to third parties, which would undermine our control over the VIE entity.

Management believes the holders of the VIE's registered capital, Messrs. Chen Mingzhe and, upon completion of registration of the above-mentioned equity transfer and pledge, Lu Junfeng, have no interest in acting contrary to the VIE agreements. However, if Messrs. Chen or Lu as shareholders of the VIE entity were to reduce or eliminate their ownership of the registered capital of the VIE entity, their interests may diverge from that of CBMG and they may seek to act in a manner contrary to the VIE agreements (for example by controlling the VIE entity in such a way that is inconsistent with the directives of CBMG management and the board; or causing non-payment by the VIE entity of services fees). If such circumstances were to occur the WFOE would have to assert control rights through the powers of attorney, pledges and other VIE agreements, which would require legal action through the PRC judicial system. We believe based on the advice of local counsel that the VIE agreements are valid and in compliance with PRC laws presently in effect. However, there is a risk that the enforcement of these agreements may involve more extensive procedures and costs to enforce, in comparison to direct equity ownership of the VIE entity. Notwithstanding the foregoing, if the applicable PRC laws were to change or are interpreted by authorities in the future in a manner which challenges or renders the VIE agreements ineffective, the WFOE's ability to control and obtain all benefits (economic or otherwise) of ownership of the VIE entity could be impaired or eliminated. In the event of such future changes or new interpretations of PRC law, in an effort to substantially preserve our rights we may have to either amend our VIE agreements or enter into alternative arrangements which comply with PRC laws as interpreted and then in effect.

The Company's technical services revenue may become subject to tightened regulation that may affect the Company's financial condition.

Currently we are generating technical services revenue comprised of preparation of subset T Cell and clonality assay platform technology for treatment of cancers by our hospital partners. Our revenue is therefore subject to the risk of progressive regulatory actions by the PRC government in the area of immunotherapy. As China has not yet codified any specific regulations to govern the development and application of immune cell therapies, the outcome of any potential Chinese regulatory action is difficult to assess or quantify. From time to time there may also be adverse publicity relating to the practice of immunotherapy treatments in China, which due to the sensitive and experimental nature of the treatment, may trigger further governmental scrutiny. Any progressive regulatory action in China arising out of such scrutiny may adversely affect the Company's financial condition or cash flows.

Our product candidates may cause undesirable side effects or have other properties that could interrupt our clinical development, prevent or delay regulatory approval, and limit our commercial value or result in significant negative consequences.

Undesirable or unacceptable side effects caused by our product candidates could cause us or regulatory authorities to delay, suspend or stop clinical trials and could result in the delay or denial of regulatory approval by the regulatory authorities. Results of our trials could reveal unacceptable severe adverse effects or unexpected characteristics.

There have been reported patient deaths in Immune Cell therapies as a result of factors comprised of cytokine release syndrome and neurotoxicity. Immune Cell therapy treatment-related adverse side effects could also affect patient recruitment or the ability of enrolled subjects to complete the trial or result in potential liability claims. In addition, these side effects may not be recognized or properly managed by the treating medical staff, as medical personnel do not normally encounter in the general patient population toxicities resulting from personalized immune cell therapy. We plan to conduct training for the medical personnel using immune cell therapy to understand the adverse side effect profile for our clinical trials and upon any commercialization of any immune cell product candidates. Inability of the medical personnel in recognizing or managing immune cell therapy's potential adverse side effects could result in patient deaths. Any of these occurrences may harm our business, financial condition and prospects significantly.

Our manufacturing facilities are subject to extensive government regulation, and existing or future regulations may adversely affect our current or future operations, increase our costs of operations, or require us to make additional capital expenditures.

Environmental advocacy groups and regulatory agencies in China have been focusing considerable attention on the industries' potential role in climate change. Stringent government safety, environmental and bio-hazardous materials disposal regulations at the city, provincial, and local level may have substantial impact on our business and our third-party service providers. A number of complex laws, rules, orders, and interpretations govern environmental protection, health, safety, land use, zoning, transportation, and related matters. The adoption of laws and regulations to implement controls of bio-hazardous material disposal and environmental compliance, including the imposition of fees or taxes, could adversely affect the operations with which we do business. Among other things, timeliness in navigating the compliance of these regulations may restrict our operations, our third-party service providers' operations and adversely affect our financial condition, results of operations, and cash flows by imposing conditions including, but not limited to new permits requirement, limitations or bans on disposal or transportation of certain bio-hazardous materials or certain categories of materials. The Company is in the process of applying for (i) environmental protection compliance for its new facility in Beijing and (ii) update of the environmental protection permits for its Shanghai facility.

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

During the three months ended September 30, 2016, 10,500 shares of the Company's restricted common stock were issued to the Company's employees and consultants. The issuance was made in reliance on the exemption from registration provided by Section 4(a)(2) of the Securities Act.

All other unregistered sales and issuances of equity securities for the three months ended September 30, 2016 that are required to be disclosed herein were previously disclosed in a Form 8-K filed with the SEC.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibits

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

SIGNATURES

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

CELLULAR BIOMEDICINE GROUP, INC.
(Registrant)

Date: November 8, 2016 By: /s/ Bizuo (Tony) Liu
Bizuo (Tony) Liu
Chief Executive Officer and Chief Financial Officer
(Principal Executive Officer and Principal Financial and Accounting Officer)