

Taxus Cardium Pharmaceuticals Group Inc.  
Form 10-Q  
August 12, 2014  
**Table of Contents**

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended June 30, 2014**

**or**

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

**Commission file number: 001-33635**

**TAXUS CARDIUM PHARMACEUTICALS GROUP INC.**

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

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

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

**Identification No.)**

**11750 Sorrento Valley Rd, Suite 250**

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

**(858) 436-1000**  
**(Registrant's telephone number)**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

As of August 5, 2014, the registrant had 12,308,988 shares of common stock outstanding.

**Table of Contents**

**TABLE OF CONTENTS**

	<b>Page</b>
<b><u>EXPLANATORY NOTE</u></b>	1
<b><u>SPECIAL NOTE ABOUT FORWARD-LOOKING STATEMENTS</u></b>	1
<b><u>PART 1 FINANCIAL INFORMATION</u></b>	
Item 1. <b><u>Financial Statements (Unaudited)</u></b>	
<u>Condensed Consolidated Balance Sheets</u>	3
<u>Condensed Consolidated Statements of Operations</u>	4
<u>Condensed Consolidated Statements of Cash Flows</u>	5
<u>Notes to Condensed Consolidated Financial Statements</u>	6
Item 2. <b><u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b>	15
Item 3. <b><u>Quantitative and Qualitative Disclosures About Market Risk</u></b>	21
Item 4. <b><u>Controls and Procedures</u></b>	21
<b><u>PART II OTHER INFORMATION</u></b>	21
Item 1. <b><u>Legal Proceedings</u></b>	21
Item 1A. <b><u>Risk Factors</u></b>	22
Item 1B. <b><u>Unresolved Staff Comments</u></b>	23
Item 2. <b><u>Unregistered Sales of Equity Securities and Use of Proceeds</u></b>	23
Item 3. <b><u>Defaults Upon Senior Securities</u></b>	23
Item 4. <b><u>Mine Safety Disclosures</u></b>	23
Item 5. <b><u>Other Information</u></b>	23
Item 6. <b><u>Exhibits</u></b>	24
<b><u>SIGNATURES</u></b>	25

**Table of Contents**

**EXPLANATORY NOTE**

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

Effective July 18, 2013 we effected a reverse split of our outstanding common stock, par value \$0.0001 per share, in a ratio of 1 for 20. All common stock and per share amounts included in this report have been retroactively adjusted to reflect a 1 for 20 reverse stock split, as if such split had been effective at the beginning of the period reported.

**SPECIAL NOTE ABOUT FORWARD-LOOKING STATEMENTS**

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

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

planned development pathways and potential commercialization activities or opportunities;

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

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

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

our ability to enter into acceptable relationships with one or more contract manufacturers or other service providers on which we may depend, and the ability of such contract manufacturers or other service providers

Edgar Filing: Taxus Cardium Pharmaceuticals Group Inc. - Form 10-Q

to manufacture biologics, devices, or other key products or components, or to provide other services, of an acceptable quality on a timely and cost-effective basis;

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

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

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

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

the outcome of litigation matters;

the anticipated activities of our personnel, consultants and collaborators;

expectations concerning our operations outside the United States;

current and future economic and political conditions;

overall industry and market performance;

the impact of new accounting pronouncements;

**Table of Contents**

management's goals and plans for future operations; and

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

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

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

	<b>June 30, 2014</b>	<b>December 31, 2013</b>
	(unaudited)	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 719,224	\$ 22,489
Inventory, net	109,830	159,831
Prepaid expenses and other assets	348,901	309,200
Total current assets	1,177,955	491,520
Property and equipment, net	23,161	30,196
Investment	1,699,672	1,699,672
Deposit on investment option	435,000	435,000
Other long term assets	69,989	129,989
Total assets	\$ 3,405,777	\$ 2,786,377
<b>Liabilities and Stockholders Equity</b>		
Current liabilities:		
Accounts payable	\$ 1,061,234	\$ 990,279
Accrued liabilities	667,435	611,007
Advances from related party - officer	578,148	0
Total current liabilities	2,306,817	1,601,286
Total liabilities	2,306,817	1,601,286
Commitments and contingencies		
Stockholders equity:		
Series A Convertible Preferred stock, \$0.0001 par value; 40,000,000 shares authorized; issued and outstanding 1,255 at June 30, 2014 and 1,500 at December 31, 2013, with liquidation preferences of \$1,000	0	0
Common stock, \$0.0001 par value; 200,000,000 shares authorized; issued and outstanding 12,185,988 at June 30, 2014 and 8,810,624 at December 31, 2013	13,260	12,956
Additional paid-in capital	109,137,731	106,500,753
Stock subscription receivable	(300,000)	0
Accumulated Deficit	(107,752,031)	(105,328,618)
Total stockholders equity	1,098,960	1,185,091

Total liabilities and stockholders' equity	\$ 3,405,777	\$ 2,786,377
--	--------------	--------------

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



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

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
<b>Revenues</b>				
Product sales	\$ 0	\$ 42,600	\$ 0	\$ 90,000
Total revenues	0	42,600	0	90,000
Cost of goods sold	0	26,980	0	57,000
Gross profit	0	15,620	0	33,000
<b>Operating expenses</b>				
Research and development	138,608	447,337	382,152	1,172,213
Selling, general and administrative	817,717	1,424,634	1,993,595	2,692,391
Total operating expenses	956,325	1,871,971	2,375,747	3,864,604
Loss from operations	(956,325)	(1,856,351)	(2,375,747)	(3,831,604)
Interest income	0	0	0	217
Interest expense	(28,600)	(0)	(47,667)	(771)
Net loss from continuing operations	(984,925)	(1,856,351)	(2,423,414)	(3,832,158)
Net loss from discontinued operations	0	(261,197)	0	(547,745)
Net loss	\$ (984,925)	\$ (2,117,548)	\$ (2,423,414)	\$ (4,379,903)
Deemed dividend on preferred stock	(0)	(233,011)	(0)	(233,011)
Net loss applicable to common stockholders	\$ (984,925)	\$ (2,350,559)	\$ (2,423,414)	\$ (4,612,914)
<b>Net loss per share Basic and diluted</b>				
Net loss from continued operations	\$ (0.09)	\$ (0.33)	\$ (0.24)	\$ (0.68)
Net loss from discontinued operations	\$ (0.00)	\$ (0.04)	\$ (0.00)	\$ (0.04)
Net loss per share Basic and diluted	\$ (0.09)	\$ (0.37)	\$ (0.24)	\$ (0.72)
Weighted average common shares outstanding	10,857,610	6,405,802	9,952,718	6,391,748

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



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

(unaudited)

	<b>Six Months Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>
<b>Cash Flows From Operating Activities</b>		
Net loss	\$ (2,423,414)	\$ (4,379,903)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	7,035	40,487
Amortization intangibles	0	76,616
Amortization technology and licenses	0	67,204
Provision for obsolete inventory	50,000	(62,431)
Reserve for product returns	0	(12,640)
Stock based compensation expense	507,283	40,750
Deferred rent	0	(38,670)
Changes in operating assets and liabilities		
Accounts receivable	0	195,048
Inventories	0	314,126
Prepaid expenses and other assets	(39,699)	(16,237)
Deposits	60,000	(1,853)
Payables advance from officer	121,148	0
Accounts payable	70,955	(54,115)
Accrued liabilities	56,428	(109,341)
Net cash used in operating activities	(1,590,264)	(3,940,959)
<b>Cash Flows From Investing Activities</b>		
Purchases of property and equipment	0	(4,599)
Net cash provided by (used in) investing activities	0	(4,599)
<b>Cash Flows From Financing Activities</b>		
Restricted cash collateral for letter of credit	0	50,000
Cash advanced from officer	457,000	0
Net Proceeds from sales of preferred and common stock	1,829,999	2,226,043
Net cash provided by financing activities	2,286,999	2,276,403
Net increase (decrease) in cash	696,735	(1,669,515)
Cash and cash equivalents at beginning of period	22,489	2,328,074
Cash and cash equivalents at end of period	\$ 719,224	\$ 658,559

**Supplemental Disclosures of Cash Flow Information:**

Cash paid for interest	\$	0	\$	1,438
Cash paid for income taxes	\$	0	\$	3,200

**Non-Cash Activity:**

Stock subscription receivable	\$	300,000	\$	0
Warrants issued in settlement of Accounts Payable	\$	75,000	\$	0

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

**Table of Contents**

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

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1. Organization and Liquidity**

**Organization**

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

In October 2005, we acquired a portfolio of biologic growth factors and related delivery techniques from the Schering AG Group (now part of Bayer AG) for potential use in treating ischemic and other cardiovascular conditions. This technology is the basis for our Generx<sup>®</sup> product candidate.

In March 2006, we acquired the technologies and products of InnerCool Therapies, Inc., a medical technology company in the emerging field of therapeutic hypothermia, or patient temperature modulation, whose systems and products are designed to rapidly and controllably cool the body to reduce cell death and damage following acute ischemic events such as cardiac arrest and stroke, and to potentially lessen or prevent associated injuries such as adverse neurologic outcomes.

In August 2006, we acquired rights to assets and technologies of Tissue Repair Company, a company focused on the development of growth factor therapeutics for the potential treatment of tissue wounds such as chronic diabetic wounds. Based on that technology, we developed Excellagen<sup>®</sup> a single administration therapeutic for the treatment of non-healing, neuropathic diabetic foot ulcers. Tissue Repair Company is operated as a wholly-owned subsidiary of Cardium.

On July 24, 2009, we sold all of the assets and liabilities of our InnerCool Therapies business to Philips Electronics North America Corporation for \$11.25 million, as well as the transfer of approximately \$1.5 million in trade payables.

On September 28, 2012 we acquired substantially all of the business assets and product portfolio of privately-held To Go Brands, Inc. At the time of the acquisition, To Go Brands developed, marketed and sold a portfolio of products, including nutraceutical powder mixes, supplements and chews intended to support healthy lifestyles. These products were sold through food, drug and mass channels at retailers including Whole Foods<sup>®</sup>, CVS<sup>®</sup>, Kroger<sup>®</sup>, GNC<sup>®</sup>, Jewel-Osco<sup>®</sup>, Ralph's Supermarket<sup>®</sup>, Meijer<sup>®</sup>, and the Vitamin Shoppe<sup>®</sup> and from To Go Brands' own web-based store.

On November 15, 2013, we sold our To Go Brands<sup>®</sup> business to Healthy Brands Collective<sup>®</sup> in exchange for 33,441 shares of preferred stock of Cell-nique Corporation, the owner of Healthy Brands Collective, as well as the assumption of approximately \$370,000 of liabilities. Healthy Brands Collective<sup>®</sup> is a fast growing private company that has acquired a portfolio of ten independent brand product platforms. At the time of the transaction, the preferred stock was convertible into approximately 4% of the fully-diluted common stock of Cell-nique Corporation.

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

We have yet to generate positive cash flows from operations, and are essentially dependent on debt and equity funding to finance our operations.

### **Reverse Stock Split**

On July 17, 2013, pursuant to board and stockholder approval, we filed a Certificate of Amendment to our Restated Certificate of Incorporation with the State of Delaware to affect a reverse split of our outstanding common stock, par value \$0.0001 per share, in a ratio of 1 for 20. The effective date of the reverse stock split was July 18, 2013.

## **Table of Contents**

On that date, every 20 shares of outstanding common stock were reclassified and combined into one share of common stock. No fractional shares were issued as a result of the reverse stock split. Instead, each resulting fractional share of common stock was rounded down to one whole share. The reverse stock split reduced the number of shares of common stock outstanding from 134,366,340 to 6,718,317.

All common stock and per share amounts contained in the consolidated financial statements included in this report have been retroactively adjusted to reflect the 1 for 20 reverse stock split, as if such split had been effective at the beginning of the period reported.

## **Liquidity and Capital Resources**

As of June 30, 2014, we had \$719,224 in cash and cash equivalents. Our working capital deficit at June 30, 2014 was approximately \$1,129,000.

Net cash used in operating activities was \$1,590,264 for the six months ended June 30, 2014 compared to \$3,940,959 for the six months ended June 30, 2013. The decrease in net cash used in operating activities was due primarily to spending and headcount reductions in the second half of 2013 and early 2014 and advances against payables made by our CEO.

We had no net cash used in investing activities for the six months ended June 30, 2014. At June 30, 2014 we did not have any significant capital expenditure requirements.

Net cash provided by financing activities was \$2,286,999 for the six months ended June 30, 2014. This was primarily the result of a common stock equity financing with a strategic investor for \$2.0 million comprised of two tranches. In the first tranche, we sold 714,826 shares of common stock at a price of \$0.70 per share for aggregate proceeds of \$0.5 million. In the second tranche we sold 2,330,278 shares of common stock for \$0.6437 per share for aggregate proceeds of \$1.5 million. This also includes \$457,000 of cash advanced from our Chief Executive Officer to cover certain Company expenses incurred in the ordinary course of business.

We intend to secure additional working capital through sales of additional debt or equity securities to finance our operations. Under the terms of the securities purchase with our strategic investor, the strategic investor agreed to purchase an additional tranche of securities in the amount of \$300,000, priced at a 10% premium to the market price of our common stock. This arrangement has been recorded as a subscription receivable. We do not have any other arrangement for the sale of securities in place at this time.

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

Our principal business objective is to complete an additional strategic licensing agreement to advance sales of our Excellagen product family and/or another corporate transaction. If we fail to enter into an additional strategic licensing arrangement or generate sufficient cash from financing activities we will not generate sufficient cash flows to cover our operating expenses.

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

unable to continue as a going concern.

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

### **Basis of Presentation**

The condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial statements and with Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not contain all information and footnotes required by accounting principles generally accepted in the United States of America for annual financial statements. In the opinion of our management, the accompanying unaudited condensed consolidated financial statements contain all the adjustments necessary (consisting only of normal recurring accruals) to present the financial position of the Company as of June 30, 2014 and the results of operations and cash flows for the periods presented. The results of operations for the six months ended June 30, 2014 are not necessarily indicative of the operating results for the full fiscal year or any future period.



## **Table of Contents**

These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013. Our accounting policies are described in the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2013, and updated, as necessary, in this Quarterly Report on Form 10-Q.

## **Estimates**

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

## **Fair Value of Financial Instruments**

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

## **Principles of Consolidation**

The consolidated financial statements include the accounts of Taxus Cardium Pharmaceuticals Group, Inc. and its wholly-owned subsidiaries, Tissue Repair Company, To Go Brands, Inc. (a business that is presented as a discontinued operation as described in Note 3) and LifeAgain Insurance Solutions, Inc. All significant inter-company transactions and balances have been eliminated in consolidation.

## **Preferred Stock**

We apply the accounting standards for distinguishing liabilities from equity when determining the classification and measurement of our preferred stock. Shares that are subject to mandatory redemption (if any) are classified as liability instruments and are measured at fair value. We classify conditionally redeemable preferred shares, which includes preferred shares that feature redemption rights that are either within the control of the holder or subject to redemption upon the occurrence of uncertain events not solely within the Company's control, as temporary equity. At all other times, preferred shares are classified as stockholders' equity.

## **Revenue Recognition**

Our revenues principally consist of sales of Excellagen product. We apply the revenue recognition principles set forth under the Securities and Exchange Commission's Staff Accounting Bulletin (SAB) 104. Accordingly, revenue from product sales is recognized when (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred, (iii) the sales price is fixed or determinable, and (iv) collectability is reasonably assured. Generally, these criteria are met when the risk of ownership and title passes to our customers.

## **Research and Development**

In accordance with ASC Topic 730 research and development costs are expensed as incurred. Research and development expenses consist of purchased technology, purchased research and development rights and outside

services for research and development activities associated with product development. In accordance with ASC Topic 730, the cost to purchase such technology and research and development rights are required to be charged to expense if there is currently no alternative future use for this technology and, therefore, no separate economic value.

### **Income Taxes**

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in operations in the period enacted. A valuation allowance is provided when it is more likely than not that a portion or all of a deferred tax asset will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income and the reversal of deferred tax liabilities during the period in which related temporary differences become deductible. The benefit of tax positions taken or expected to be taken in the Company's income tax returns are recognized in the consolidated financial statements if such positions are more likely than not to be sustained upon examination.

**Table of Contents**

**Common Stock Purchase Warrants**

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

**Loss Per Common Share**

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

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

As of June 30, 2014 potentially dilutive securities consist of preferred stock convertible into 1,949,381 shares of common stock and outstanding stock options and warrants to acquire 2,434,936 shares of our common stock. As of June 30, 2013, potentially dilutive securities consisted of preferred stock convertible into 1,158,462 shares of common stock and outstanding stock options and warrants to acquire 1,377,068 shares of our common stock. These potentially dilutive securities were not included in the calculation of loss per common share for the three months and six months ended June 30, 2014 or 2013 because their effect would be anti-dilutive.

**Stock-Based Compensation**

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

**Table of Contents**

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

	<b>For the Three Months Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>
Research and development	\$ 0	\$ 0
General and administrative	1,118	0
<b>Total stock-based compensation</b>	<b>\$ 1,118</b>	<b>\$ 0</b>

	<b>For the Six Months Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>
Research and development	\$ 51,409	\$ 5,997
General and administrative	455,874	34,753
<b>Total stock-based compensation</b>	<b>\$ 507,283</b>	<b>\$ 40,750</b>

**Investment**

On November 15, 2013, we closed the sale of our To Go Brands, Inc. business unit to Cell-nique Corporation, the parent company of Healthy Brands Collective. The purchase price was 33,441 shares of preferred stock (representing approximately 4% of the outstanding shares of common stock on a fully diluted basis) and the assumption of certain liabilities. Since Cell-nique Corporation is a private company we have recorded the value of those shares of preferred stock on our balance sheet as an investment in Cell-nique Corporation, at the net asset value of the net assets transferred (cost) to Cell-nique Corporation. We periodically review the carrying amount of our investment in Cell-nique Corporation to determine whether the value is impaired or a write down may be necessary for an other than temporary decline in value. There were no impairment charges recorded during the six months ended June 30, 2014.

**Recent Accounting Pronouncements**

In June 2014, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) No. 2014-10, Development Stage Entities (Topic 915): Elimination of Certain Financial Reporting Requirements, Including an Amendment to Variable Interest Entities Guidance in Topic 810, Consolidation. This ASU removes the definition of a development stage entity from the ASC, thereby removing the financial reporting distinction between development stage entities and other reporting entities from GAAP. In addition, the ASU eliminates the requirements for development stage entities to (1) present inception-to-date information in the statements of operations, cash flows, and stockholders' equity, (2) label the financial statements as those of a development stage entity, (3) disclose a description of the development stage activities in which the entity is engaged, and (4) disclose in the first year in which the entity is no longer a development stage entity that in prior years it had been in the development stage. This ASU is effective for annual reporting periods beginning after December 15, 2014, and interim periods therein. Early adoption is permitted. The Company has elected to adopt this ASU effective with this Quarterly Report on Form 10-Q and its adoption resulted in the removal of previously required development stage disclosures.

**NOTE 3 Disposal of Long-Lived Assets**

In accordance with the provisions of ASC topic 360 (formerly SFAS No. 144), Accounting for the Impairment or Disposal of Long-Lived Assets, the disposal of our To Go Brands, Inc. business segment is presented as a discontinued operation in the accompanying consolidated financial statements.

**Table of Contents**

The following results of operations of To Go Brands, Inc. and the expense associated with the write-off of the remaining recorded value of the technology licenses associated with our former nutraceutical business are presented as a loss from a discontinued operation in the consolidated statements of operations:

	For the three months ended June 30, 2013	For the Six months ended June 30, 2013
<b>Revenues</b>		
Product sales	\$ 541,971	\$ 1,093,776
Cost of goods sold	312,170	632,391
Gross profit	229,801	461,385
<b>Operating expenses</b>		
Research and development	42,030	79,596
Selling, general and administrative	448,440	928,867
Total operating expenses	490,470	1,008,463
Loss from operation	(260,669)	(547,078)
Interest, net	(528)	(667)
Net loss from discontinued operations of To Go Brands, Inc.	(261,197)	\$ (547,745)

**Note 4 Inventories**

Inventories consisted of the following:

	<b>June 30, 2014</b>	<b>December 31, 2013</b>
Raw materials	\$ 183,398	\$ 183,398
Finished goods	0	0
	183,398	183,398
Less provision for obsolete inventory	(73,567)	(23,567)
Inventories, net	\$ 109,831	\$ 159,831

**Note 5 Accrued Liabilities**

Accrued Liabilities consisted of the following:

	<b>June 30, 2014</b>	<b>December 31, 2013</b>
Payroll and benefits	\$ 589,599	\$ 511,098
Other	77,836	99,909
<b>Total</b>	<b>\$ 667,435</b>	<b>\$ 611,007</b>

**Note 6 Advances From Related Party - Officer**

Officers of the Company occasionally incur or advance expenses on behalf of the Company, which are subsequently reimbursed to the officer along with any associated costs. As of June 30, 2014, approximately \$494,000 in Company expenses incurred in the ordinary course of business that have been paid by or with cash advanced by the Company's Chief Executive Officer Christopher Reinhard, and estimated associated costs incurred in connection with the provision of such funds totaling approximately \$84,000, remain to be reimbursed by the Company.

## **Table of Contents**

### **Note 7 Stockholders Equity**

#### **Common Stock**

On September 28, 2010, we entered into a Sales Agreement ( Sales Agreement ) with Brinson Patrick Securities Corporation to enable us to use Brinson Patrick as a sales manager to sell shares of our common stock from time to time in at-the-market transactions pursuant to our shelf registration statement on a best efforts basis. During the first quarter of 2013, we raised net proceeds of \$65,743 through the sale of 17,187 shares of common stock under at-the-market transactions under our sales agreement with Brinson Patrick Securities Corporation.

On February 28, 2014, we entered into a strategic collaboration and funding arrangement with Shanxi Taxus Pharmaceuticals Co., Ltd., which is based in the Peoples Republic of China (PRC) and is affiliated with Shenzhen Forntsea Taxus Industry Capital Management ( Shanxi Taxus ), to support the worldwide clinical and commercial development of Cardium s advanced regenerative medicine therapeutics products, including the Generx product candidate and Excellagen. In connection with the agreement, Shanxi Taxus acquired an initial tranche of \$0.5 million by purchasing 714,286 shares of common stock at \$0.70 per share.

On May 12, 2014, Shanxi Taxus acquired a second tranche of \$1.5 million by purchasing 2,330,278 shares of common stock at \$0.6437 per share. The common stock issued to Shanxi Taxus is unregistered, but under the terms of the Stock Purchase Agreement, we agreed to grant the investor piggyback registration rights in the event that the Company files a registration statement for other shares of common stock. No warrants were issued in connection with the transaction. Under the terms of the securities purchase with Shanxi Taxus, the strategic investor agreed to purchase an additional tranche of securities in the amount of \$300,000, priced at a 10% premium to the market price of our common stock. This arrangement has been recorded as a subscription receivable.

#### **Preferred Stock**

In April 2013, we entered into a securities purchase agreement with Sabby Healthcare, one of our institutional investors pursuant to which we agreed to sell to the investor an aggregate of 4,012 shares of our newly authorized Series A Convertible Preferred Stock, for a total purchase price of \$4.0 million. No warrants were issued in connection with this offering, other than 44,087 placement agent warrants with an exercise price of \$2.275 per share and an expiration date of August 27, 2015.

The initial closing under the securities purchase agreement took place in April 2013, at which we sold 2,356 shares of Series A Convertible Preferred Stock for aggregate net proceeds of \$2,160,000. A second closing for the remaining 1,656 shares of Series A Convertible Preferred Stock for aggregate net proceeds of \$1,532,000 took place on July 18, 2013. At June 30, 2014 the investor had converted 2,757 shares of Series A Convertible Preferred Stock into 2,663,652 shares of common stock. As a result of the conversion, 1,255 shares of Series A Convertible Preferred Stock were outstanding at June 30, 2014.

The holders of our Series A Convertible Preferred Stock are entitled, on an as-converted basis, to dividends equal to and in the same form as any dividends declared and issued on our common stock. Except as required by law, holders of Series A Convertible Preferred Stock are not entitled to voting rights. Upon any liquidation, dissolution or winding up, holders of the Series A Convertible Preferred Stock will be entitled to a liquidation preference above the holders of common stock or any other junior stock in an amount equal to the original purchase price of \$1,000, plus any fees, damages or dividends arising. The Series A Convertible Preferred Stock is convertible into shares of our common stock at the option of the holder, subject to a beneficial ownership limitation of 9.99%. The initial conversion price was \$1.82 per share after giving effect to the reverse stock split, but was subsequently reset and is currently \$0.6437



per share; the conversion price is subject to downward adjustment if we issue common stock or common stock equivalents at a price less than the then effective conversion price. We have the right to force conversion if the volume weighted average price for our common stock exceeds \$12.00 per share for 25 trading days during a 30 consecutive trading day period and certain other equity conditions are met.

As long as any shares of Series A Convertible Preferred Stock are outstanding, we have agreed that we will not, without the consent of the holders of two-thirds of the Series A Convertible Preferred Stock, incur indebtedness other than specified Permitted Indebtedness, incur any liens other than specified Permitted Liens, amend our Certificate of Incorporation in any manner that adversely affects the Series A Convertible Preferred Stock, repurchase or redeem any common stock or common stock equivalents, pay dividends on our common stock, or enter into any related party transactions.

We determined the Series A Convertible Preferred Stock contained a beneficial conversion feature at the date of issuance. This beneficial conversion feature amounted to \$233,011 for the first closing and was recorded as a deemed preferred dividend in April 2013. The beneficial conversion feature on the second closing amounted to \$172,861 and was recorded as a deemed preferred dividend in July 2013.

**Table of Contents****Stock Options and Other Equity Compensation Plans**

We have an equity incentive plan that was established in 2005 under which 283,292 shares of our common stock have been reserved for issuance to employees, non-employee directors and consultants of the Company.

At June 30, 2014 the following shares were outstanding and available for future issuance under the option plan:

<b>Plan</b>	<b>Shares Outstanding</b>	<b>Shares Available for Issuance</b>
2005 Equity Incentive Plan	104,500	178,558

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

The following is a summary of stock option and warrant activity under our equity incentive plan and warrants issued outside of the plan to employees and consultants, during the six months ended June 30, 2014:

	<b>Number of Options or Warrants</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Contractual Life (in years)</b>
Balance outstanding, December 31, 2013	144,000	\$ 31.80	2.1
Granted	1,457,100	\$ 0.80	9.9
Exercised	0	\$ 0	0
Cancelled	(0)	\$ 0	0
Cancelled (unvested)	(39,500)	\$ 33.11	0
Expired (vested)	0	0	0
<b>Balance outstanding, June 30, 2014</b>	<b>1,561,600</b>	<b>\$ 2.84</b>	<b>9.1</b>
<b>Balance exercisable, June 30, 2014</b>	<b>1,561,600</b>	<b>\$ 2.84</b>	<b>9.1</b>

As of June 30, 2014 there was no intrinsic value to the outstanding and exercisable options and warrants.

**Warrants**

The following table summarizes warrant activity issued in connection with financing transactions for the six months ended June 30, 2014:

	<b>Number of Warrants</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Contractual Life (in years)</b>
Balance outstanding, December 31, 2013	978,830	\$ 19.82	1.9
Warrants issued			
Warrants exercised			
Warrants expired	(105,494)	\$ 36.59	
Warrants cancelled			
Balance outstanding, June 30, 2014	873,336	\$ 17.79	1.56
Warrants exercisable at June 30, 2014	873,336	\$ 17.79	1.56

As of June 30, 2014 there was no intrinsic value to the outstanding and exercisable warrants.

**Table of Contents**

**Note 8 Subsequent Events**

The Company has evaluated events that occurred subsequent to June 30, 2014 and through the date the condensed consolidated financial statements were issued.

## **Table of Contents**

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

*The following discussion and analysis is intended to help you understand our financial condition and results of operations for the three and six month periods ended June 30, 2014. You should read the following discussion and analysis together with our unaudited condensed consolidated financial statements and the notes to the condensed consolidated financial statements included under Item 1 in this report, as well as the risk factors and other information included Part II, Item 1A, in our annual report on Form 10-K for our year ended December 31, 2013 (our 2013 Annual Report ), and other reports and documents we file with the United States Securities and Exchange Commission ( SEC ). Our future financial condition and results of operations will vary from our historical financial condition and results of operations described below.*

#### **Executive Overview**

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

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

Our business is focused on the acquisition and strategic development of product opportunities or businesses having the potential to address significant unmet medical needs, and having definable pathways to commercialization, and on partnering or other monetization following the achievement of corresponding development objectives. Consistent with the Company s long-term business strategy, as previously reported, Taxus Cardium does not plan to build inventory or establish an internal marketing and sales force to directly support the commercialization of Excellagen, but continues to credentialize Excellagen in preparation for the completion of strategic partnerings for various vertical channel market opportunities or asset monetization. The Company has continued to pursue a CE mark certification for Excellagen, has fully responded to all information requested by the notified body, and looks forward to completing this process. Consistent with our overall business strategy, as our product opportunities and businesses are advanced and corresponding valuations established, we intend to consider various corporate development transactions designed to place our product candidates into larger organizations or with partners having existing commercialization, sales and marketing resources, and a need for innovative products. Such transactions could involve the sale, partnering or other monetization of particular product opportunities or businesses.

#### **Recent Developments**

During 2013, we continued efforts to advance the development of Generx, continued the commercialization of Excellagen, sold To Go Brands, Inc. and completed development of our first LifeAgain product offering. During the six months ended June 30, 2014, we continued to support the clinical advancement of our Generx® angiogenic therapy product candidate, continued activities to commercialize our Excellagen® dermal matrix wound care product, and entered into a strategic cooperation agreement and financing arrangement with Shanxi TaxusPharmaceuticals Ltd. a strategic investor based in the Peoples Republic of China (PRC) and affiliated with Shenzhen Forntsea Taxus Industry Capital Management ( Shanxi Taxus ).

For 2014, we are focusing our efforts on the development of our core Generx<sup>®</sup> product candidate and our Excellagen<sup>®</sup> platform. As described in more detail below, preliminary results from our Phase 3 clinical study for Generx have been positive, demonstrating potential efficacy of the product in treating myocardial ischemia due to coronary artery disease. Generx is administered in a one-time intracoronary administration from a standard cardiac infusion catheter. Interim study results demonstrate effectiveness similar to that of bypass surgery or stents, but in a significantly less costly and less invasive procedure.

Our Excellagen product has been approved by the FDA for use in wound healing applications such as diabetic foot ulcers. We are aggressively pursuing distribution arrangements and opportunities for the commercialization of Excellagen. In addition, we believe that Excellagen can have significant commercial value as a platform for tissue regeneration based on stem cells, biologics, peptides and/or small molecule drugs therapeutics and are commencing strategic partnering arrangements to evaluate those opportunities.

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

## **Table of Contents**

Recent highlights include the following:

### ***Generx Development***

Generx® (alferminogene tadenovec/CardioNovo®) is an innovative DNA-based angiogenic therapy being developed for the potential treatment of myocardial ischemia due to advanced coronary artery disease. Generx is designed to stimulate and promote the growth of supplemental collateral vessels to enhance myocardial blood flow (perfusion) following a one-time intracoronary administration from a standard cardiac infusion catheter in patients who have insufficient blood flow due to atherosclerotic plaque build-up in the coronary arteries. Developments with respect to Generx include:

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

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

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

Continued to support our Generx ASPIRE Phase 3 / registration study, a 100-patient, randomized and controlled multi-center study currently enrolling patients at up to nine leading cardiology centers in the Russian Federation for patients with myocardial ischemia due to coronary artery disease. The ASPIRE study is designed to further evaluate the safety and effectiveness of Cardium's Generx DNA-based angiogenic product candidate, which has already been tested in clinical studies involving 650 patients at more than one hundred medical centers in the U.S., Europe and elsewhere. The efficacy of Generx is being quantitatively assessed using rest and stress SPECT (Single-Photon Emission Computed Tomography) myocardial imaging

to measure improvements in microvascular cardiac perfusion following a one-time, non-surgical, catheter-based administration of Generx. The Cedars-Sinai Medical Center Nuclear Cardiology Core Laboratory in Los Angeles, California, is the central core lab for the study and is responsible for the analysis of SPECT myocardial imaging data electronically transmitted from the Russian medical centers participating in the ASPIRE study. The Russian Health Authority has assigned Generx the therapeutic drug trade name of Cardionovo® for marketing and sales in Russia.

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

Presented at the 2013 Phacilitate Annual Cell & Gene Therapy Forum in Washington, DC,, Optimizing Phase III Trial Design for Generx® (Ad5FGF-4) reporting on adaptive coronary collateral growth, the biological processes to be targeted by therapeutic angiogenesis, and discussed the lessons learned during the past decade of the Company's Generx clinical development program.

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

On October 3, 2011, our Tissue Repair Company subsidiary received a 510(k) premarket notification from the U.S. Food and Drug Administration (FDA) for its fibrillar collagen-based Excellagen® topical gel for wound healing of diabetic foot ulcers and other dermal wounds. Our 510(k) filing covers Excellagen's use as a wound care management medical device for topical application by health care professionals for patients with dermal wounds, which can include diabetic ulcers, pressure ulcers, venous ulcers, tunneled/undermined wounds, surgical and trauma wounds, second degree burns, and other types of wounds.



## Table of Contents

Consistent with our long-term business strategy, we do not plan to build inventory or establish an internal marketing and sales force to directly support the commercialization of Excellagen, but continue to credentialize Excellagen in preparation for the completion of strategic partnerings for various vertical channel market opportunities or asset monetization. Developments with respect to Excellagen include:

Excellagen® flowable dermal matrix in combination with Orbsen Therapeutics' mesenchymal stromal stem cell therapy Cyndacel-M has been selected for clinical evaluation in a Phase 1b safety study for the potential treatment of chronic diabetic wounds to be funded by the European Union under EU Framework 7 (FP7). The project, known by the acronym REDDSTAR (Repair of Diabetic Damage by Stromal Cell Administration), is being coordinated by Professor Timothy O'Brien, Dean of Medicine and Director of Ireland's Regenerative Medicine Institute (REMEDI) at National University of Ireland Galway (NUI). The REDDSTAR preclinical studies evaluated the use of Excellagen® and an alternative collagen-based product to promote the maintenance of stem cell viability. The combination of Cyndacel-M and Excellagen® improved wound closure and neo-vascularization in a diabetic dermal wound healing model. Based on those results, Excellagen® was selected to be used with Cyndacel-M in a human clinical study.

Continued activities relating to the strategic partnering process and monetization Excellagen® flowable dermal matrix wound care product for select U.S.-based vertical market channels and geographic markets. Activities have also continued to leverage Excellagen as an advanced regenerative medicine delivery platform by identifying innovative potential future product extensions for tissue regeneration based on stem cells, biologics, peptides and/or small molecule drugs.

Continued application for CE Mark registration for Excellagen® flowable dermal matrix wound care product, responding to a request from the notified body BSI for additional information. We are looking forward to the completion of this process and the issuance of an international CE Mark registration for Excellagen.

Introduced FDA-cleared Excellagen® professional-use wound care product in March 2012 and entered into a logistics and cold chain services agreement with Smith Medical Partners, a subsidiary of H. D. Smith.

Awarded ISO 13485 Certification for Excellagen, State of California manufacturing license and state clearances to market and sell Excellagen in the U.S., and advancement of other international registrations for Excellagen, including CE Mark registration.

Excellagen selected as one of the Top Ten Podiatry Innovations in 2012 by *Podiatry Today* publication, and awarded by the American Podiatric Medical Association's Seal of Approval for Excellagen's contributions to better foot health and mobility.

Formed the Excellagen Medical Advisory Board comprising leading practitioners, clinicians and researchers with diversified expertise in the field of advanced wound care, and Excellagen presentations and case studies at the Desert Foot 2012 High Risk Diabetic Foot Conference.

Advanced applications to support the reimbursement process for Excellagen with the Centers for Medicare & Medicaid Services and private insurance providers, and broadened marketing and sales efforts into markets with established CPT<sup>®</sup> codes for surgical debridement procedures and in-hospital surgical markets covered under DRG reimbursement systems.

Planned partner-enabled pilot Phase 2b/3 clinical study for Genedexa (Ad5PDGF-B) (previously referred to as the Excellerate product candidate). Genedexa's initial clinical development focus will be for the treatment of chronic, non-healing diabetic foot ulcers. The Company has completed the MATRIX-1 (Phase 1/2) and MATRIX-2 (Phase 2b) clinical studies and the planned Genedexa pilot study represents an important next step forward towards FDA registration of Cardium's advanced DNA biologic wound care product. Genedexa represents the first product candidate based on the Company's Excellagen product platform and is comprised of the FDA-cleared Excellagen collagen matrix gel (6%) topical gel and an adenovector gene therapy with DNA encoding for PDGF-B protein. PDGF-B is believed to promote wound healing by directly stimulating cells involved in wound repair and also by eliciting the production of other growth factors. Genedexa, a DNA-based biologic, requires data from clinical studies demonstrating patient safety and efficacy prior to filing for a Biologic License Application.

Consistent with the Company's long-term business strategy, as previously reported, Taxus Cardium does not plan to build inventory or establish an internal marketing and sales force to directly support the commercialization of Excellagen, but continues to credentialize Excellagen in preparation for the completion of strategic partnerings for various vertical channel market opportunities or asset monetization. The Company has continued to pursue a CE mark certification for Excellagen, has responded to information requested by the certification body, and looks forward to completing this process.

## **Table of Contents**

### ***Sale of To-Go Brands, Inc.***

On November 15, 2013, the Company sold its To Go Brands® business to Healthy Brands Collective® in exchange for 33,441 shares of preferred stock in Cell-nique Corporation (the parent company of Healthy Brands Collective) and the assumption of approximately \$370,000 of liabilities. Healthy Brands Collective® is a fast growing private company that has acquired a portfolio of eight independent brand product platforms including Cell-nique®, Cherrybrook Kitchen®, Yumnuts®, Living Harvest/Tempt®, Bites of Bliss®, High Country Kombucha® drinks and Organics European Gourmet Bakery (formerly Dr. Oetker) natural and organic baking mixes. Healthy Brands expects to make additional brand acquisitions and has previously reported plans to move forward as a public company as its business advances. As a result of the sale, management determined it appropriate to discontinue the nutraceutical operations which led to the sale of To Go Brands Inc., and to write off the unamortized balance of our technology licenses which was focused on that product line. Accordingly, the activities of To Go Brands, Inc. are reflected in the accompanying financial statements as discontinued operations.

The 33,441 shares of preferred stock represented approximately 4% of the outstanding shares of common stock of Cell-nique Corporation on a fully diluted basis at the time of the transaction. Since Cell-nique Corporation is a private company we have recorded the value of those shares of preferred stock on our balance sheet as an investment in Cell-nique Corporation, at the net asset value of the net assets transferred (cost) to Cell-nique Corporation. The Company periodically reviews the carrying amount of its investment in Cell-nique to determine whether the value is impaired or a write down may be necessary for an other than temporary decline in value. There were no impairment charges recorded during the six months ended June 30, 2014.

### ***LifeAgain Insurance Solutions***

During 2013, we completed the initial product development of LifeAgain , a medical analytics and social media-driven enabled e-commerce platform that is focused on the development, marketing and direct sales of new and innovative survivable risk, multi-year, non-convertible level term life insurance programs and other insurance products, that are currently non-accessible and unaffordable for certain sub-groups of highly motivated buyers considered uninsurable based on traditional underwriting standards by U.S. life insurance companies. Traditional life insurance has become over-optimized web-marketed, undifferentiated, low priced commodity largely marketed to healthy people. LifeAgain is being developed based on improvements in relative mortality in certain sub-group populations, including cancer patients and patients with chronic medical diseases, as a result of the success of early diagnostic screening, public education, the introduction of advanced drugs and biologics, improved and optimized therapies, and expanding access to healthcare. We released the first product aimed at individuals with prostate cancer in 2013. The Company plans to potentially support the growth and development of this non-core business and technology platform through the sale of a minority stake in our LifeAgain business to a strategic partner or financial investors.

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

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

Under the terms of a collaboration agreement, Shanxi Taxus agreed to apply commercially reasonable efforts to assist Cardium to develop and refine a plan or plans pursuant to which Cardium products, particularly our Generx® and Excellagen® product opportunities, could be commercialized in China; and we agreed, upon request, to apply

commercially reasonable efforts to assist Shanxi Taxus to develop and refine a plan or plans pursuant to which Shanxi Taxus oncology-related products and product opportunities could be commercialized in the United States. As part of the agreement we changed our name to Taxus Cardium Pharmaceuticals Group, Inc. In addition, we agreed to grant Shanxi Taxus certain board rights based on the level of its financing pursuant to the financing arrangement discussed below.

Cardium and Shanxi Taxus are moving forward with plans to explore the commercialization of Cardium's advanced regenerative medicine therapeutic products for the emerging and rapidly growing advanced healthcare market in China, and Shanxi Taxus oncology-focused product opportunities for the U.S. market; and for Mr. Jiayue Zhang, who is the Chairman of Shanxi Taxus, and an additional individual with U.S. corporate and financial experience, to join Cardium's Board of Directors.

### **Critical Accounting Policies and Estimates**

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

## **Table of Contents**

We have identified certain policies such as warrant and stock option compensation expense that are calculated using the Binomial and Black-Scholes Option Model that we believe are important to the portrayal of our financial condition and results of operations. These policies require the application of significant judgment by our management. We base our estimates on our historical experience, industry standards, and various other assumptions that we believe are reasonable under the circumstances. Actual results could differ from these estimates under different assumptions or conditions. An adverse effect on our financial condition, changes in financial condition, and results of operations could occur if circumstances change that alter the various assumptions or conditions used in such estimates or assumptions. If we were to undervalue our derivative liabilities or stock option compensation expense we would understate the expense recognized in our consolidated statements of operation. Conversely if we were to overvalue our warrant and stock option compensation expenses we would overstate the expense recognized in our consolidated statements of operations.

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

## **Results of Operations**

### ***For the Three Months Ended June 30, 2014 compared to the Three Months Ended June 30, 2013***

We generated \$42,600 in revenue from the sale of Excellagen products associated with the introduction of the product to the market in the three months ended June 30, 2013, but did record any revenue for the same period in 2014. Consistent with our long-term business strategy, we do not plan to build inventory or establish an internal marketing and sales force to directly support the commercialization of Excellagen, but continue to credentialize Excellagen in preparation for the completion of strategic partnerings for various vertical channel market opportunities or asset monetization.

There were no costs of goods sold for the three months ended June 30, 2014. Costs of Excellagen product sold in the three months ended June 30, 2013 was \$26,980.

Research and development expenses for the three months ended June 30, 2014 were \$138,608 compared to \$447,337 for the same period in 2013. The decrease of \$308,729 was the result of decreases in three expense categories: decreased costs related to our Generx Aspire study, reductions in production and testing costs for Excellagen, and a reduction in personnel costs.

Selling, general and administrative expenses for the three months ended June 30, 2014 were \$817,717 compared to \$1,424,634 for the three months ended June 30, 2013. We implemented a number of cash savings initiatives during the second half of 2013 which decreased certain expenses by approximately 578,000, including an overall in personnel costs of 29% as a result of headcount and salary reductions, as well as savings in facility costs associated with the relocation of our corporate headquarters.

Interest expense for the three months ended June 30, 2014 was \$28,600 and represents interest costs incurred by a Company officer in connection with advances for payables to be reimbursed by the company.

Net loss from continuing operations for the three months ended June 30, 2014 was \$984,925 compared to \$1,856,351 for the same period last year. The decrease in net loss was primarily a result of the decrease in operating expenses described above.

Net loss from discontinued operations for the three months ended June 30, 2013 was \$261,197 as a result of the losses incurred by To Go Brands during that period.

Net loss for the three months ended June 30, 2014 was \$984,925 compared to a net loss of \$2,350,559 for the same period of 2013.

***For the Six Months Ended June 30, 2014 compared to the Six Months Ended June 30, 2013***

We generated \$90,000 in revenue from the sale of Excellagen products associated with the introduction of the product to the market in the six months ended June 30, 2013, but did not record any revenue for the same period in 2014. We do not plan to build inventory or establish an internal marketing and sales force to directly support the commercialization of Excellagen, but continue to credentialize Excellagen in preparation for the completion of strategic partnerings for various vertical channel market opportunities or asset monetization.

There were no costs of goods sold for the six months ended June 30, 2014. Costs of Excellagen product sold in the six months ended June 30, 2013 was \$57,000.

## **Table of Contents**

Research and development expenses for the six months ended June 30, 2014 were \$382,152 compared to \$1,172,213 for the same period in 2013. The decrease of \$790,061 was the result of decreases in three expense categories: decreased costs related to our Generx Aspire study, reductions in production and testing costs for Excellagen, and a reduction in personnel costs.

Selling, general and administrative expenses for the six months ended June 30, 2014 were \$1,993,595 compared to \$2,692,391 for the six months ended June 30, 2013. We implemented a number of cash savings initiatives during the second half of 2013 which decreased certain expenses by approximately \$1,100,000, including an overall 29% reduction in personnel costs through headcount and salary reductions, as well as savings in facility costs associated with the relocation of our corporate headquarters. These expense reductions were offset in the first quarter of 2014 by a non-cash, stock based compensation expense of \$454,756 based on the Black-Scholes value of warrants issued during the period.

Interest expense for the six months ended June 30, 2014 was \$47,667 and represents interest costs incurred by a Company officer in connection with advances for payables to be reimbursed by the company.

Net loss from continuing operations for the six months ended June 30, 2014 was \$2,423,414, which included \$507,283 of non-cash stock based compensation expense (\$455,874 of which was included in selling, general and administrative, and \$51,409 of which was included in research and development expense), compared to \$3,832,158 for the same period last year (which included only \$40,750 of non-cash stock based compensation expense). The decrease in net loss was primarily a result of the decrease in operating expenses described above.

Net loss from discontinued operations for the six months ended June 30, 2013 was \$547,745 as a result of the losses incurred by To Go Brands during that period.

Net loss for the six months ended June 30, 2014 was \$2,423,414 (including the \$507,283 non cash stock based compensation expense) compared to a net loss of \$4,612,914 for the same period of 2013.

## **Liquidity and Capital Resources**

As of June 30, 2014, we had \$719,224 in cash and cash equivalents. Our working capital deficit at June 30, 2014 was approximately \$1,129,000.

Net cash used in operating activities was \$1,590,264 for the six months ended June 30, 2014 compared to \$3,940,959 for the six months ended June 30, 2013. The decrease in net cash used in operating activities was due primarily to spending and headcount reductions in the second half of 2013 and early 2014 and advances against payables made by our CEO.

We had no net cash used in investing activities for the six months ended June 30, 2014. At June 30, 2014 we did not have any significant capital expenditure requirements.

Net cash provided by financing activities was \$2,286,999 for the six months ended June 30, 2014. This was primarily the result of a common stock equity financing with Shanxi Taxus, our strategic investor, for \$2.0 million comprised of two tranches. In the first tranche, we sold 714,826 shares of common stock at a price of \$0.70 per share for aggregate proceeds of \$0.5 million. In the second tranche we sold 2,330,278 shares of common stock for \$0.6437 per share for aggregate proceeds of \$1.5 million. This also includes \$457,000 of cash advanced from our Chief Executive Officer to cover certain Company expenses incurred in the ordinary course of business.

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

We intend to secure additional working capital through sales of additional debt or equity securities to finance our operations. Under the terms of the securities purchase with our strategic investor, the strategic investor agreed to purchase an additional tranche of securities in the amount of \$300,000, priced at a 10% premium to the market price of our common stock. This arrangement has been recorded as a subscription receivable. We do not have any other arrangement for the sale of securities in place at this time.

On September 28, 2010, we entered into a Sale Agreement with Brinson Patrick Securities Corporation which enabled us to use Brinson Patrick as a sales manager to sell shares of our common stock on a best efforts basis from time to time in an at-the-market



## **Table of Contents**

transactions pursuant to our shelf registration statement. During the year ended December 31, 2013 we raised \$65,744 under this agreement, the majority of which was raised during the first quarter of 2013. The Sale Agreement required that we register the sale of our shares to Brinson Patrick Securities Corporation on a shelf registration statement on Form S-3. Because our common stock is no longer listed on a national exchange, we are not eligible to use a Form S-3 registration statement. Accordingly we do not anticipate additional sales under the Sales Agreement unless and until we regain listing on a national exchange.

On February 28, 2014, we entered into a strategic collaboration and funding arrangement with Shanxi Taxus. The stock purchase agreement granted Shanxi Taxus the right to purchase up to \$5.0 million of our common stock. The purchases were to occur in up to five tranches, each at a 10% premium to the then-current trailing average market prices of our common stock at the time of each closing.

Although Shanxi Taxus originally had a right to purchase third, fourth and fifth tranches of \$1.0 million each, with the third tranche not timely closed for the full amount, it no longer has a contractual right to purchase additional shares pursuant to the terms of the stock purchase agreement. While we and Shanxi Taxus could mutually agree to effect additional share purchases pursuant to the February agreement or otherwise, they would be at our discretion with terms to be determined.

Our principal business objective is to complete an additional strategic licensing agreement to advance sales of the Excellagen product family and/or another corporate transaction. We will continue to seek additional financing that will support our operations until we can secure strategic licensing agreement or other strategic transaction for our core Excellagen® product or Generx® product candidate. If we fail to enter into an additional strategic licensing arrangement or generate sufficient product sales, we will not generate sufficient cash flows to cover our operating expenses. Our history of recurring losses and uncertainties as to whether our operations will become profitable raise substantial doubt about our ability to continue as a going concern. Our consolidated financial statements do not include any adjustments related to the recoverability of assets or classifications of liabilities that might be necessary should we be unable to continue as a going concern.

## **Off-Balance Sheet Arrangements**

As of June 30, 2014, we did not have any significant off-balance sheet debt nor did we have any transactions, arrangements, obligations (including contingent obligations) or other relationships with any unconsolidated entities or other persons that have or are reasonably likely to have a material current or future effect on financial condition, changes in financial condition, results of operations, liquidity, capital expenditures, capital resources, or significant components of revenue or expenses material to investors.

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

Under the rules and regulations of the SEC, as a smaller reporting company we are not required to provide the information required by this item.

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

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

under the Securities Exchange Act of 1934, as amended.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2014. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and proced