

Cardium Therapeutics, Inc.  
Form 10-Q  
November 19, 2013  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended September 30, 2013**

**or**

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

**Commission file number: 001-33635**

**CARDIUM THERAPEUTICS, INC.**

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

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**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 Cardium 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 November 10, 2013, the registrant had 8,175,674 shares of common stock outstanding.

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### **EXPLANATORY NOTE**

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

On July 18, 2013 we effected a 1 for 20 reverse split of our outstanding common stock, par value \$0.0001 per share. The information in this report has been adjusted to give retroactive effect to the reverse stock split.

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

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

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our ability to maintain the listing of our common stock on a national exchange;

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;

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").

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**Table of Contents****PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****CARDIUM THERAPEUTICS, INC. AND SUBSIDIARIES****(a development stage company)****CONDENSED CONSOLIDATED BALANCE SHEETS****(Unaudited)**

	<b>September 30, 2013</b>	<b>December 31, 2012</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 585,201	\$ 2,328,074
Restricted cash	0	50,000
Accounts receivable	105,174	328,953
Inventory, net	823,235	1,174,323
Prepaid expenses and other assets	332,682	407,389
Total current assets	1,846,292	4,288,739
Property and equipment, net	65,010	97,582
Investment	435,000	435,000
Technology licenses, net	1,097,511	1,198,318
Intangible assets, net	904,766	1,019,692
Goodwill	584,711	584,711
Other long term assets	195,920	184,836
Total assets	\$ 5,129,210	\$ 7,808,878
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 802,365	\$ 777,861
Accrued liabilities	364,547	614,857
Current liabilities	1,166,912	1,392,718
Deferred rent	11,813	50,370
Total liabilities	1,178,725	1,443,088
<b>Commitments and contingencies</b>		
<b>Stockholders' equity:</b>		
Series A Convertible Preferred stock, \$0.0001 par value; 40,000,000 shares authorized; issued and outstanding 2,580.9 at September 30, 2013 and 0 at December 31, 2012, with liquidation preferences of \$1,000	0	0
Common stock, \$0.0001 par value; 200,000,000 shares authorized; issued and outstanding 7,747,228 at September 30, 2013 and 6,460,915 at December 31, 2012	12,956	12,922
Additional paid-in capital	106,500,753	102,767,193
Deficit accumulated during development stage	(102,563,224)	(96,414,325)

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Total stockholders' equity	3,950,485	6,365,790
Total liabilities and stockholders' equity	\$ 5,129,210	\$ 7,808,878

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

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**Table of Contents****CARDIUM THERAPEUTICS, INC. AND SUBSIDIARIES****(a development stage company)****Condensed Consolidated Statements of Operations****(Unaudited)**

	Three Months Ended September 30,		Nine Months Ended September 30,		Period from December 22, 2003 (Inception) to September 30, 2013
	2013	2012	2013	2012	
<b>Revenues</b>					
Product sales	\$ 471,566	\$ 5,589	\$ 1,655,342	\$ 39,241	\$ 2,440,660
Grant revenues	0	0	0	0	1,623,160
Total revenues	471,566	5,589	1,655,342	39,241	4,063,820
Cost of goods sold	288,522	3,640	977,912	15,191	(1,414,977)
Gross profit	183,044	1,949	677,430	24,050	2,648,843
<b>Operating expenses</b>					
Research and development	315,178	508,342	1,566,988	2,097,675	45,573,715
Selling, general and administrative	1,636,871	1,389,731	5,258,129	4,358,706	48,811,487
Total operating expenses	1,952,049	1,898,073	6,825,117	6,456,381	94,385,202
Loss from operations	(1,769,005)	(1,896,124)	(6,147,687)	(6,432,331)	(91,736,360)
Change in fair value of derivative liabilities	0	0	0	64,157	10,395,709
Gain on warrant exchange	0	0	0	0	473,872
Interest income	0	1,204	217	5,885	1,583,855
Interest expense	(0)	0	(1,438)	(2,114)	(7,127,692)
Net loss from continuing operations	(1,769,005)	(1,894,920)	(6,148,908)	(6,364,403)	(86,410,616)
Net loss from discontinued operations	0	0	0	0	(22,561,220)
Gain on sale of business unit	0	0	0	0	6,408,603
Net loss	\$ (1,769,005)	\$ (1,894,920)	\$ (6,148,908)	\$ (6,364,403)	\$ (102,563,233)
Deemed dividend on preferred stock	(172,861)	0	(405,872)	0	(0)
Net loss applicable to common stockholders	\$ (1,941,866)	\$ (1,894,920)	\$ (6,554,780)	\$ (6,364,403)	\$ (0)
Basic and diluted loss per common share	\$ (0.28)	\$ (0.32)	\$ (0.99)	\$ (1.10)	
Weighted average common shares outstanding	6,995,494	5,952,237	6,595,209	5,774,671	

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



**Table of Contents****CARDIUM THERAPEUTICS, INC. AND SUBSIDIARIES****(a development stage company)****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

	For The Nine Months Ended September 30,		December 22, 2003 (Inception) To September 30, 2013
	2013	2012	2013
<b>Cash Flows From Operating Activities</b>			
Net loss	\$ (6,148,908)	\$ (6,364,403)	\$ (102,563,233)
Adjustments to reconcile net loss to net cash used in operating activities:			
Gain on sale of discontinued operation	0	0	(6,408,603)
Gain on sale of warrants	0	0	(518,622)
Loss on abandonment of leaseholds	0	0	135,344
Depreciation	60,224	73,408	2,171,352
Amortization intangibles	114,926	0	2,849,427
Amortization debt discount	0	0	5,291,019
Amortization deferred financing costs	0	0	925,859
Amortization technology and licenses	100,807	100,806	337,489
Provision for obsolete inventory	(62,431)	0	96,717
Reserve for product returns	(27,646)	0	48,354
Change in fair value of warrants	0	(64,157)	(10,395,709)
Common stock and warrants issued for services and reimbursement of expenses	0	0	203,882
Stock based compensation expense	40,750	128,996	7,638,571
In-process purchased technology	0	0	2,027,529
Deferred rent	(38,557)	(49,615)	11,813
Changes in operating assets and liabilities			
Accounts receivable	223,779	(3,621)	120,092
Inventories	413,519	(296,098)	(2,132,373)
Prepaid expenses and other assets	74,707	(165,426)	(438,552)
Deposits	(11,084)	0	(196,064)
Accounts payable	24,504	(377,298)	1,729,000
Accrued liabilities	(222,664)	(50,916)	(685,692)
Net cash used in operating activities	(5,458,074)	(7,068,324)	(99,752,400)
<b>Cash Flows From Investing Activities</b>			
In-process technology purchased from Tissue Repair Company	0	0	(1,500,000)
Cash acquired in acquisitions	0	288,151	1,839,951
Fee paid to list shares issued for technology and product license	0	0	(65,000)
Purchases of property and equipment	(27,652)	(15,866)	(2,860,069)
Net cash used in investing activities	(27,652)	272,285	(2,585,118)
<b>Cash Flows From Financing Activities</b>			
Proceeds from officer loan	0	0	62,882
Restricted cash collateral for letter of credit	50,000	150,000	0

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Restricted cash — proceeds placed in escrow from sale of business	0	0	0
Proceeds from the exercise of warrants, net	0	764	1,259,212
Proceeds from debt financing agreement, net of debt issuance costs of \$871,833	0	0	14,378,167
Proceeds from the sale of business unit	0	0	11,250,000
Repayment of debt	0	0	(15,750,000)
Proceeds from sales of preferred and common stock, net of issuance costs of \$198,086	3,692,853	6,396,127	91,722,458
Net cash provided by financing activities	3,742,853	6,546,891	102,922,719
Net (decrease) increase in cash	(1,742,873)	(249,148)	585,201
Cash and cash equivalents at beginning of period	2,328,074	4,721,279	0
Cash and cash equivalents at end of period	\$ 585,201	\$ 4,472,131	\$ 585,201

### Supplemental Disclosures of Cash Flow Information:

Cash paid for interest	\$ 1,438	\$ 2,114	\$ 1,394,487
Cash paid for income taxes	\$ 3,200	\$ 2,400	\$ 31,762

### Non-Cash Activity:

Subscription receivable for common shares	\$ 0	\$ 0	\$ 17,000
Common stock issued for repayment of loans	\$ 0	\$ 0	\$ 62,882
Stock issued for technology license fee	\$ 0	\$ 0	\$ 1,870,000
Net assets acquired for the issuance of common stock (exclusive of cash acquired)	\$ 0	\$ 1,727,849	\$ 7,551,849
Warrants exchanged for stock	\$ 0	\$ 0	\$ (901,139)
Reclassification of derivative liabilities with expired price protection provisions	\$ 0	\$ (21,349)	\$ (4,045,702)

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

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**CARDIUM THERAPEUTICS, INC. AND SUBSIDIARIES**

**(a development stage company)**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Note 1 - Organization and Liquidity**

**Organization**

Cardium Therapeutics, Inc. (the Company, Cardium, we, our and us ) was incorporated in Delaware in December 2003. We are a medical technology company primarily focused on the development and commercialization of a portfolio of novel products and devices.

We are currently operating in four primary business lines through our four operating subsidiaries: Activation Therapeutics, Inc., Angionetics Biologics, Inc., To Go Brands, Inc. and LifeAgain Insurance Solutions, Inc. We report in two business segments. Our Pharmaceutical Products segment includes the operations of our Activation Therapeutics, Inc. and Angionetics Biologics, Inc. subsidiaries. Activation Therapeutics, Inc. is developing and commercializing a late-stage line of regenerative medicine product candidates. Angionetics Biologics, Inc. is developing innovative cardiovascular products. Our Nutraceutical Products segment includes the operations of our To Go Brands, Inc. subsidiary and is developing and marketing a line of nutraceuticals and other healthy lifestyle products. Our LifeAgain Insurance Solutions, Inc. subsidiary is a life insurance business focused on medical data analysis and is advancing toward commercialization. We anticipate that LifeAgain Insurance Solutions business will be reported as a separate segment, once it establishes material operations.

The significant transactions in the development of our current product portfolio are as follows:

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 was the inception of our Angionetics Biologics business.

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 Activation Therapeutics, Inc. (formerly 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, and whose FDA 510(k) cleared product, Excellagen is designed for the treatment of diabetic foot ulcers and other wounds,

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. To Go Brands develops, markets, and sells a portfolio of products, including nutraceutical powder mixes, supplements and chews intended to support healthy lifestyles. These products are sold through food, drug and mass channels at retailers including Whole Foods®, Kroger®, GNC®, Jewel-Osco®, Ralph's Supermarkets®, Meijer®, and the Vitamin Shoppe® and from the Company's web-based store.

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Our business is focused on the acquisition, strategic development, and partnering or other monetization of product opportunities or businesses, 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 are a development stage company. We have yet to generate positive cash flows from operations, and are essentially dependent on debt and equity funding, or sale or other monetization of product opportunities or businesses, 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 effect a reverse split of our outstanding common stock, par value \$0.0001 per share, in a ratio of 1:20. The effective date of the reverse stock split was July 18, 2013.

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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 Going Concern**

As of September 30, 2013 we had \$585,201 in cash and cash equivalents and our working capital was \$679,380.

Net cash used in operating activities was \$5,458,000 for the nine months ended September 30, 2013 compared to \$7,068,000 for the nine months ended September 30, 2012. The decrease in net cash used in operating activities was due primarily to an increase in product sales, and decreases in testing and process validation costs for the initial inventory for our Activation Therapeutics business, including our Excellagen topical treatment gel. Since inception, our operations have consumed substantial amounts of cash and we have had only limited revenues. From inception (December 22, 2003) to September 30, 2013, net cash used in operating activities amounted to \$99,752,000.

Our primary source of liquidity has been cash flows from financing activities and in particular proceeds from sales of our debt and equity securities. Net cash provided by financing activities was \$3,743,000 for the nine months ended September 30, 2013. This included the sale of 4,012 shares of Series A Convertible Preferred Stock with net proceeds of \$3,692,000, and 343,749 shares of common stock in at-the-market transactions in the first quarter for net proceeds of \$65,743. See Note 7. From inception (December 22, 2003) to September 30, 2013 net cash provided by financing activities amounted to \$102,923,000.

Net cash used in investing activities for the nine months ended September 30, 2013 was \$28,000. Net cash used in investing activities since inception amounted to \$2,585,000. At September 30, 2013 we did not have any significant capital expenditure requirements.

Our business model is designed to develop a diversified portfolio of product opportunities and businesses, leveraging our skills in late-stage product development in order to bridge the critical gap between promising new technologies and readiness for commercialization and then to partner or monetize such product opportunities or businesses with established organizations capable of advancing their commercialization. Consistent with our business model and long-term strategy, we have already advanced and monetized a first business unit, Innercool Therapies, Inc., which was sold to Philips Electronics North America Corporation.

We now have four additional business units in our portfolio: (1) Angionetics Biologics, which includes Cardium's late-stage DNA-based Generx® cardiovascular biologic product candidate; (2) Activation Therapeutics, which includes the Company's regenerative medicine wound healing technology platform, including its Excellagen® advanced wound care product; (3) To Go Brands®, which includes the Company's health sciences and nutraceutical business; and (4) LifeAgain Insurance Solutions, Inc. which is focused on building the Company's medical data analytics technology platform.

We intend to consider additional corporate development transactions designed to place our product candidates or businesses 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. In parallel, as our businesses are advanced and corresponding valuations established, we plan to pursue new product opportunities and acquisitions with strong value enhancement potential.

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While we intend to partner or monetize one or more of our product opportunities or businesses consistent with our business model, the timing and success of those transactions cannot be assured and negative cash flow from operations are expected to continue for the foreseeable future. In order to maintain operations and liquidity, we expect we will need to complete a monetization of one or more product opportunities or business units, and/or complete a financing, before end of year. Our principal business objective in the near term is to complete an additional strategic licensing agreement to advance sales of the Excellagen product family, enter into a distribution arrangement to advance sales of our To Go Brands nutraceuticals business, and/or another corporate transaction. If we fail to receive sufficient proceeds from the partnering, sale, or other monetization of product opportunities or businesses, or generate sufficient product sales we will not generate sufficient cash flows to cover our operating expenses.

If needed, we intent to secure additional financings in the form of sale of equity securities. Based on recently-issued amendments to Rule 506 and Rule 144A under the Securities Act of 1933 that were implemented under Section 201(a) of the Jumpstart Our Business Startups Act (the JOBS Act ), and since we do not anticipate raising additional funds under our shelf registration statement or as debt within the next 12 months, such financings may be through the sale of private equity interests to Qualified Investors or strategic partners based on the JOBS Act amendments, and/or through other private placements or a public offering of securities, which could potentially be made in the parent company or independently in one or more of our subsidiary business units.

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 condensed 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 accompanying financial statements have been prepared in accordance with authoritative guidance for development stage enterprises. 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 the Company's 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 September 30, 2013 and the results of operations and cash flows for the periods presented. The results of operations for the nine months ended September 30, 2013 are not necessarily indicative of the operating results for the full fiscal year or any future period.

These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012. The Company's 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, 2012, and updated, as necessary, in this Quarterly Report on Form 10-Q.

### **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.

### **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 product returns, reserve for inventory, and valuing options and warrants using option pricing models.

### **Principles of Consolidation**

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



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### **Cash and Cash Equivalents**

We consider all highly liquid investments with maturities of three months or less when purchased to be cash equivalents.

### **Concentration of Credit Risk**

Financial instruments that potentially subject us to significant concentrations of credit risk consist of cash and cash equivalents. At times, our cash and cash equivalents may be uninsured or in deposit accounts that exceed the Federal Deposit Insurance Corporation ( FDIC ) insurance limits. As of September 30, 2013, we had cash and cash equivalent balances of approximately \$335,000 in excess of the federally insured limit of \$250,000.

### **Accounts Receivable**

Accounts receivable are stated at cost less an allowance for doubtful accounts, which reflects our estimate of balances that will be not collected. The allowance is based on the history of past write-offs, the aging of balances, collections experience and current credit conditions. Additions to the allowance for doubtful accounts include provisions for bad debt and deductions to the allowance for doubtful accounts include customer write-offs. We have a low occurrence of credit losses and therefore do not believe an allowance for doubtful accounts is necessary at this time.

### **Long-Lived Assets**

Long-lived assets to be held and used, including property, plant, and equipment as well as intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable such as:

a significant decline in the observable market value of an asset;

a significant change in the extent or manner in which an asset is used; or

a significant adverse change that would indicate that the carrying amount of an asset or group of assets is not recoverable.

Determination of recoverability is based on an estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition. In the event that such cash flows are not expected to be sufficient to recover the carrying amount of the assets, the assets are written-down to their estimated fair values. Long-lived assets to be disposed of are carried at fair value less costs to sell. We do not believe there was any impairment of long-lived assets at September 30, 2013 or December 31, 2012.

### **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 nutritional products. 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. These criteria are met when the risk of ownership and title passes to our customers.

Net sales represent products at gross selling price, less (i) estimated product returns and (ii) certain other discounts, allowances and sales incentives. We use various types of sales incentives and promotions in marketing our products; including, price reductions, coupons, rebate



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offers, slotting fees and free product. The cost of these sales incentives and promotions are accounted for as a direct reduction of sales. The cost of free product is classified as cost of goods sold.

We sell certain products with rights of return. If the amount of future returns can be reasonably estimated, we recognize revenue when the products are shipped, net of allowance for estimated returns, provided that all other criteria for revenue recognition have been met. A reserve for product returns is recorded based upon historical experience. At September 30, 2013 and December 31, 2012, the reserve for product returns amounted to \$48,000 and \$76,000, respectively.

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**Table of Contents****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 our income tax returns is recognized in the condensed consolidated financial statements if such positions are more likely than not to be sustained upon examination.

**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. These potentially dilutive securities were not included in the calculation of loss per common share for the three months and nine months ended September 30, 2013 or 2012 because their effect would be anti-dilutive.

As of September 30, 2013 potentially dilutive securities consist of preferred stock convertible into 50,777,475 shares of common stock and outstanding stock options and warrants to acquire 1,276,112 shares of our common stock. As of September 30, 2012, potentially dilutive securities consisted of outstanding stock options and warrants to acquire 1,624,951 shares of our common stock.

**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. At September 30, 2013 we had no unamortized stock option expense.

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 September 30</b>	
	<b>2013</b>	<b>2012</b>
Research and development	\$ 0	\$ 5,999
General and administrative	0	36,152
<b>Total stock-based compensation</b>	<b>\$ 0</b>	<b>\$ 42,151</b>

	<b>For the Nine Months Ended September 30,</b>	
	<b>2013</b>	<b>2012</b>
Research and development	\$ 5,997	\$ 17,886
General and administrative	34,753	111,110
<b>Total stock-based compensation</b>	<b>\$ 40,750</b>	<b>\$ 128,996</b>

**Recent Accounting Pronouncements**

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We do not believe that any recently issued accounting standards, if adopted, would have a material impact on our condensed consolidated financial statements.

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**Table of Contents****Note 3 - Business Combinations**

On September 28, 2012 we completed our acquisition of the assets of privately-held To Go Brands, Inc., a Nevada corporation. To Go Brands develops, markets and sells a portfolio of products, including nutraceutical powder mixes, supplements and chews intended to support healthy lifestyles. We acquired substantially all of the assets, properties, goodwill and rights related to the business, including without limitation, accounts receivable, inventory, furniture and fixtures, patents, trademarks, and other intellectual property rights. The product line includes drink mixes in stick packs designed to be poured directly into a water bottle, packaged mixes for home use and capsule-based dietary supplements. These products are sold through food, drug and mass channels at retailers including Whole Foods®, Kroger®, GNC®, Jewel-Osco®, Ralph's Supermarkets®, Meijer®, and the Vitamin Shoppe® and from the Company's web-based store.

Pursuant to the terms of the asset purchase agreement, we issued 480,000 shares of our common stock, which were unregistered and restricted shares. We issued 420,000 unregistered shares of common stock into an escrow account, to be held for 6 months and then released in tranches over the following one year period ending 18 months following the closing of the transaction. As of September 30, 2013 245,000 shares of common stock have been released from the escrow account. An additional 60,000 shares of common stock were issued into escrow to be held for an 18-month period as security for indemnification claims that may arise in connection with the asset purchase transaction or the related business.

We accounted for the acquisition of To Go Brands in accordance with ASC 805 Business Combinations.

The unaudited pro forma consolidated financial information for the three months and nine months ended September 30, 2012 is as follows:

**Pro Forma Combined for the Acquisition of To Go Brands, Inc.**

	For The Three Months Ended September 30, 2012	For The Nine Months Ended September 30, 2012
Net Sales	\$ 410,582	\$ 2,134,868
Net (loss)	(2,160,729)	(6,924,110)
Net (loss) per common share - basic and diluted	\$ (0.34)	\$ (1.12)
Weighted average common shares outstanding - basic and diluted	6,372,237	6,194,671

Unaudited pro forma condensed consolidated financial information is presented above as if the To Go Brands acquisition had occurred at the beginning of the period shown. The results have been adjusted to account for the amortization of acquired intangibles and other pro forma adjustments. The pro forma information presented does not purport to present what actual results would have been had the acquisition occurred at the beginning of such periods, nor does the information project results for any future period. The pro forma information includes net sales of To Go Brands for the three and nine months ended September 30, 2012 totaling \$404,993 and \$2,095,627 respectively. Net (loss) for To Go Brands for the three and nine months ended September 30, 2012 was \$(227,501), and \$(444,783) respectively.

**Note 4 - Inventories**

Inventories consisted of the following:

	September 30, 2013	December 31, 2012
Raw materials	\$ 648,859	\$ 515,244
Finished goods	201,553	