Cherry Tankers Inc
Form SC 13D
February 14, 2008

Securities and Exchange Commission, Washington, D.C. 20549

Schedule 13D

Under the Securities Exchange Act of 1934

(Amendment No._)*

CHERRY TANKERS INC.

(Name of Issuer)

Shares of Common Stock, $0.0001 Par Value

(Title of Class of Securities)

16473P108

(CUSIP Number)

Carl M. Sherer, Esq.
15 Yad Harutzim Street, Suite 303
Jerusalem, Israel 93420
Tel No.: 1-617-997-0097
Facsimile No.: 1-617-997-0098

(Name, Address and Telephone Number of Person Authorized to Receive Notices and Communications)

January 10, 2008

(Date of Event Which Requires Filing of This Statement)

If the filing person has previously filed a statement on Schedule 13G to report the acquisition that is the subject of this Schedule 13D, and is filing this schedule because of §§240.13d-1(e), 240.13d-1(f) or 240.13d-1(g), check the following box. o

Note: Schedules filed in paper format shall include a signed original and five copies of the schedule, including all exhibits. See Rule 13d-7 for other parties to whom copies are to be sent.

*The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter disclosures provided in a prior cover page.

The information required on the remainder of this cover page shall not be deemed to be “filed” for the purpose of section 18 of the Securities Exchange Act of 1934 (“Act”) or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

CUSIP No. 16473P108

1	Name of Reporting Persons. Sivan Alush		
2	Check the Appropriate Box if member of a Group (see instructions)		(a) o (b) o
3	SEC Use Only		
4	Source of Funds (see instructions) PF		
5	Check if Disclosure of Legal Proceeding isRequired Pursuant to Items 2(d) or 2(e)		o
6	Citizenship or Place of Organization Israel		
Number of Shares Beneficially Owned by Each Reporting Person With	7	Sole Voting Power 962,500	
	8	Shared Voting Power -0-	
	9	Sole Dispositive Power 962,500	
	10	Shared Dispositive Power -0-	
11	Aggregate Amount Beneficially Owned by Each Reporting Person 962,500 shares of common stock		
12	Check if the Aggregate Amount in Row (11) Excludes Certain Shares (see instructions)		o
13	Percent of Class Represented by Amount in Row (11) 7.02% of the issued and outstanding shares of common stock*		
14	Type of Reporting Person (see instructions) IN		

* Based on 13,705,000 shares issued and outstanding as of February 7, 2008

Item 1. Security and Issuer

This statement relates to the common stock, $0.0001 par value, of Cherry Tankers Inc., a Delaware corporation (the "Issuer"). The principal offices of the issuer are located at 78 Sokolov Street, Herzeliya, Israel.

Item 2. Identity and Background

(a) **Name**; Sivan Alush (the "Reporting Person")

(b) **Residence or business address**; 3 Haait Street, Raanana, Israel.

(c) **Present principal occupation or employment and the name, principal business and address of any corporation or other organization in which such employment is conducted**;

(d) **Whether or not, during the last five years, such person has been convicted in a criminal proceeding (excluding traffic violations or similar misdemeanors) and, if so, give the dates, nature of conviction, name and location of court, any penalty imposed, or other disposition of the case;** None

(e) **Whether or not, during the last five years, such person was a party to a civil proceeding of a judicial or administrative body of competent jurisdiction and as a result of such proceeding was or is subject to a judgment, decree or final order enjoining future violations of, or prohibiting or mandating activities subject to, federal or state securities laws or finding any violation with respect to such laws; and, if so, identify and describe such proceedings and summarize the terms of such judgment, decree or final order**; None

(f) Citizenship. Israel

Item 3. Source and Amount of Funds or Other Consideration

The Reporting Person purchased 962,500 shares of the Issuer's common stock for $96.25.

Item 4. Purpose of Transaction.

On June 18, 2007, the Reporting Person purchased 962,500 shares of the Issuer's common stock for $96.25 for investment purposes.

Item 5. Interest in Securities of the Issuer.

(a) The Issuer has 13,705,000 issued and outstanding shares of common stock as of February 7, 2008. The Reporting Person owns 962,500 shares (representing 7.02%) of the issued and outstanding common stock of the Issuer

(b) The Reporting Person has the sole power to vote or direct the vote and the sole power to dispose or direct the disposition of all of the shares reported above in this item 5.

(c) Other than the acquisition of the shares reported herein, the Reporting Person has not effected any transactions in the shares of the Issuer during the past sixty days.

(d) No person other than the Reporting Person has the right to receive or the power to direct the receipt of dividends from, or the proceeds from the sale of, the shares reported above in this Item 5.

(e) Not applicable.

Item 6. Contracts, Arrangements, Understandings or Relationships With Respect to Securities of the Issuer.

The Reporting Person does not have any contracts, arrangements, understandings or relationships with respect to the securities of the Issuer

Signature.

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Date February 8, 2008

Signature /s/ Sivan Alush
Sivan Alush

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w Roman, Times, Serif">(57)Stock Based Compensation - - 24,163 - - - $24,163 Net loss - - - - - (1,055,748) $(1,055,748)Balance at December 31, 2010 7,239,010 7,239 5,769,927 (2,156) - (3,986,036) $1,788,974 Series A-3 Preferred stock and warrants issued for cash at $1.93 per share, as converted 518,714 519 999,481 - - - $1,000,000 Interest on subscription receivable - - - (29) - - $(29)Stock Based Compensation - - 15,527 - - - $15,527 Net loss - - - - - (1,149,320) $(1,149,320)Balance at December 31, 2011 7,757,724 7,758 6,784,935 (2,185) - (5,135,356) $1,655,152 Series A-3 Preferred stock and warrants issued for cash at $1.93 per share, as converted 2,593,570 2,594 4,997,406 - - - $5,000,000 Interest on subscription receivable - - - (26) - - $(26)Stock Based Compensation - - 332,347 - - - $332,347 Unrealized loss on marketable securities - - - - (21,795) - $(21,795)Net loss - - - - - (2,071,255) $(2,071,255)Balance at December 31, 2012 10,351,294 10,351 12,114,689 (2,211) (21,795) (7,206,611) $4,894,423 Interest on subscription receivable - - - (1) - - $(1)Proceeds from subscription receivable - - - 2,212 - - $2,212 Stock Based Compensation - - 263,593 - - - $263,593 Reverse merger transaction Reverse acquisition of Nile 1,336,453 1,336 3,174,664 - - - $3,176,000 Unrealized gain (loss) on marketable securities - - - - 20,815 - $20,815 Net loss - - - - - (8,891,924) $(8,891,924)Balance at December 31, 2013 11,687,747 $11,687 $15,552,946 $- $(980) $(16,098,535) $(534,882)

See accompanying notes to consolidated financial statements

CAPRICOR THERAPEUTICS, INC.

(A DEVELOPMENT STAGE COMPANY)

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012 AND THE PERIOD

FROM JULY 5, 2005 (INCEPTION) THROUGH DECEMBER 31, 2013

	Years Ended December 31,		July 5, 2005 (inception) through December 31,
	2013	2012	2013
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	$(8,891,924)	$(2,071,255)	$(16,098,535)
Adjustments to reconcile net loss to net cash used in operating activities:			
Gain on sale of property and equipment	-	-	(3,707)
Depreciation and amortization	26,923	20,337	164,732
Common stock issued for services	-	-	3,858
Impairment of goodwill	1,919,000	-	1,919,000
Stock-based compensation	263,593	332,347	666,123
Change in assets - (increase) decrease:			
Restricted cash	(1,401,859)	-	(1,401,859)
Grants receivable	767,163	(359,547)	-
Interest receivable	25,028	(25,215)	(187)
Prepaid expenses and other current assets	(161,617)	(26,684)	(199,659)
Deposits	(5,105)	(8,980)	(23,193)
Change in liabilities - increase (decrease):			
Accounts payable and accrued expenses	974,710	77,149	1,239,006
Accounts payable and accrued expenses, related party	217,658	4,554	382,142
Sub-award payable, related party	(33,217)	(5,349)	41,855
Accrued royalties	97,512	-	122,416
Accrued interest	58,134	-	58,134
NET CASH USED IN OPERATING ACTIVITIES	(6,144,001)	(2,062,643)	(13,129,874)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of marketable securities	(226,998)	(4,214,521)	(4,441,519)
Proceeds from sales and maturities of marketable securities	4,114,045	-	4,114,045
Proceeds from sale of property and equipment	-	-	88,908
Payments for purchase of property and equipment	(56,115)	(13,428)	(284,923)
Proceeds from reverse merger	664	-	664
Payments for patents	(53,230)	(89,550)	(259,682)

NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	3,778,366	(4,317,499)	(782,507)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from the sale of series A-1 preferred stock	-	-	3,008,000
Proceeds from the sale of series A-2 preferred stock	-	-	2,800,007
Proceeds from the sale of series A-3 preferred stock	-	5,000,000	6,000,000
Proceeds from loan payable, net	3,925,066	-	3,925,066
Costs related to the issuance of preferred stock and warrants	-	-	(91,155)
NET CASH PROVIDED BY FINANCING ACTIVITIES	3,925,066	5,000,000	15,641,918
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,559,431	(1,380,142)	1,729,537
Cash and cash equivalents balance at beginning of period	170,106	1,550,248	-
Cash and cash equivalents balance at end of period	$1,729,537	$170,106	$1,729,537
SUPPLEMENTAL DISCLOSURES:			
Interest paid in cash	$-	$-	$-
Income taxes paid in cash	$-	$-	$-

See accompanying notes to consolidated financial statements

CAPRICOR THERAPEUTICS, INC.

(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

Capricor Therapeutics, Inc., or the Company, is a development stage, biopharmaceutical company whose mission is to improve the treatment of cardiovascular diseases by commercializing innovative therapies. Capricor, Inc., or Capricor (a wholly-owned subsidiary of the Company), was founded in 2005 as a Delaware corporation based on the innovative work of its founder, Eduardo Marbán, M.D., Ph.D. After completion of a merger with Nile Therapeutics, Inc. or Nile, on November 20, 2013, Nile formally changed its name to Capricor Therapeutics, Inc. Capricor Therapeutics, together with our subsidiary, Capricor, currently have five drug candidates in various stages of development.

Consummation of Merger

On November 20, 2013, pursuant to that certain Agreement and Plan of Merger and Reorganization dated as of July 7, 2013, as amended by that certain First Amendment to Agreement and Plan of Merger and Reorganization, dated as of September 27, 2013 (as amended, the "Merger Agreement"), by and among Nile Therapeutics, Inc., a Delaware corporation ("Nile"), Bovet Merger Corp., a Delaware corporation and a wholly-owned subsidiary of Nile ("Merger Sub"), and Capricor, Merger Sub merged with and into Capricor and Capricor became a wholly-owned subsidiary of Nile (the "Merger"). Immediately prior to the effective time of the Merger (the "Effective Time") and in connection therewith, Nile filed certain amendments to its certificate of incorporation which, among other things (i) effected a 1-for-50 reverse split of its common stock (the "Reverse Stock Split"), (ii) changed its corporate name from "Nile Therapeutics, Inc." to "Capricor Therapeutics, Inc.," and (iii) effected a reduction in the total number of authorized shares of common stock from 100,000,000 to 50,000,000, and a reduction in the total number of authorized shares of preferred stock from 10,000,000 to 5,000,000.

At the Effective Time and in connection with the Merger, each outstanding share of Capricor's Series A-1, Series A-2 and Series A-3 Preferred Stock was converted into one share of common stock, par value $0.001 per share, of Capricor (the "Capricor Common Stock").

As a result of the Merger and in accordance with the terms of the Merger Agreement, each outstanding share of Capricor Common Stock was converted into the right to receive approximately 2.07 shares of the common stock of Capricor Therapeutics, par value $0.001 per share (the "Capricor Therapeutics Common Stock"), on a post 1-for-50 Reverse Stock Split basis. Immediately after the Effective Time and in accordance with the terms of the Merger Agreement, the former Capricor stockholders owned approximately 90% of the outstanding common stock of Capricor Therapeutics, and the Nile stockholders owned approximately 10% of the outstanding common stock of Capricor Therapeutics, in each case on a fully-diluted basis. For accounting purposes, the Merger is accounted for as a reverse merger with Capricor as the accounting acquiror (legal acquiree) and Nile as the accounting acquiree (legal acquiror).

Since Capricor was deemed to be the accounting acquiror in the merger, the historical financial information for periods prior to the merger reflect the financial information and activities solely of Capricor and not of Nile. The historical equity of Capricor has been retroactively adjusted to reflect the equity structure of Capricor Therapeutics using the respective exchange ratio established in the merger between Nile and Capricor, which reflects the number of shares Capricor Therapeutics issued to equity holders of Capricor as a result of the merger. The retroactive revision of Capricor's equity includes Capricor's preferred stock as if such shares of preferred stock had been converted into Capricor common stock at the respective dates of issuance, which is consistent with the terms of the merger. Accordingly, all common and preferred shares and per share amounts for all periods presented in the consolidated financial statements contained in this Annual Report on Form 10-K and notes thereto have been adjusted retrospectively, where applicable, to reflect the respective exchange ratio established in the merger.

The acquisition date fair value of the consideration transferred pursuant to the merger totaled $3,176,000. The preliminary goodwill recorded for the merger was $1,919,000. The initial fair values set forth below may be adjusted as additional information is obtained through the measurement period of the transaction and change the fair value allocation as of the acquisition date.

The following table summarizes the preliminary allocation of the purchase price on November 20, 2013 to the estimated fair values of the assets acquired and liabilities assumed in the merger:

CAPRICOR THERAPEUTICS, INC.

(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash	$664
Prepaid expenses	25,639
In-process research and development	1,500,000
Accounts payable and accrued expenses	(269,303)
Net assets acquired	1,257,000
Goodwill	1,919,000
Total consideration	$3,176,000

Goodwill of $1,919,000 was comprised of the fair value of the stock issued in the merger of $3,176,000 less net assets acquired of $1,257,000. The Company determined goodwill to be fully impaired as of December 31, 2013. Since the acquisition date, the results of Nile have been included in the Company’s consolidated financial results for the period from November 20, 2013 through December 31, 2013.

After the Effective Time, each then outstanding Capricor stock option, whether vested or unvested, was assumed by Capricor Therapeutics in accordance with the terms of (i) the 2006 Stock Option Plan, (ii) the 2012 Restated Equity Incentive Plan, or (iii) the 2012 Non-Employee Director Stock Option Plan, as applicable, and the stock option agreement under which each such option was issued. All rights with respect to Capricor Common Stock under outstanding Capricor options were converted into rights with respect to Capricor Therapeutics Common Stock.

Basis of Consolidation

Our consolidated financial statements include the accounts of the Company and our wholly-owned subsidiary. All intercompany transactions have been eliminated in consolidation.

Development Stage Activities

The Company is a development stage enterprise since it has not yet generated any revenue from the sale of products and, through December 31, 2013, its efforts have been principally devoted to developing its licensed technologies, recruiting personnel, developing its intellectual property portfolio, and raising capital. Accordingly, the accompanying financial statements have been prepared in accordance with the provisions of Accounting Standards Codification ("ASC") 915, "*Development Stage Entities*." The Company has experienced net losses since its inception and has an accumulated deficit of approximately $16.1 million at December 31, 2013. The Company expects to incur substantial and increasing losses and have negative net cash flows from operating activities as it expands its technology portfolio and engages in further research and development activities, particularly the conducting of pre-clinical and clinical trials.

Liquidity

The Company has historically financed its operations from equity financings. Since 2005, Capricor has used equity financed cash, government grant income and a CIRM loan award to finance its research and development activities as well as operational expenses.

Cash resources consisting of cash, cash equivalents and marketable securities as of December 31, 2013 were approximately $2.1 million, compared to $4.4 million as of December 31, 2012. Additionally, on January 7, 2014, Capricor received $12.5 million from Janssen Biotech, Inc. pursuant to the terms of the Collaboration Agreement and Exclusive License Option entered into on December 27, 2013. Furthermore, the Company will need substantial additional financing in the future until it can achieve profitability, if ever. The Company's continued operations will depend on its ability to raise additional funds through various potential sources, such as equity and debt financing, or to license its compounds to another pharmaceutical company. The Company will continue to fund operations from cash on hand and through sources of capital similar to those previously described, as well as government funded grants, and/or loans.

CAPRICOR THERAPEUTICS, INC.

(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts and disclosures. Management uses its historical records and knowledge of its business in making these estimates. Accordingly, actual results may differ from these estimates.

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less at the date of purchase to be cash equivalents.

Property and Equipment

Property and equipment are stated at cost. Repairs and maintenance costs are expensed in the period incurred. Depreciation is computed using the straight-line method over the related estimated useful lives.

Description	Estimated Useful Life
Office equipment, lab equipment and furniture	5 – 7 years

Government Research Grants

Government research grants that provide funding for research and development activities are recognized as income when the related expenses are incurred, when applicable.

Restricted Cash

As of December 31, 2013, restricted cash represents funds received under Capricor's Loan Agreement with the California Institute for Regenerative Medicine ("CIRM") (see note 2 below), to be allocated to the ALLSTAR clinical trial research costs as incurred.

Marketable Securities

At December 31, 2013, marketable securities consist primarily of United States treasuries. These investments are considered available-for-sale. Realized gains and losses on the sale of debt and equity securities are determined on the specific identification method. Unrealized gains and losses are presented as other comprehensive income (loss).

Intangible Assets

Amounts attributable to intellectual property consist primarily of the costs associated with the acquisition of certain technologies, patents, patents pending, and related intangible assets with respect to research and development activities. These long-term assets are stated at cost and are being amortized on a straight-line basis over the respective estimated useful lives of the assets ranging from five to fifteen years beginning on the date the patents become effective. Amortization expense was $4,330, $4,330 and $ 297,196 for the years ended December 31, 2013 and 2012 and for the period from July 5, 2005 (inception) through December 31, 2013, respectively. Future amortization expense for the next five years is estimated to be $4,330 per year. At December 31, 2013, the Company had $194,732 attributable to pending patents for which amortization has not begun.

As a result the merger, the Company recorded $1.5 million as in-process research and development, a component of intangible assets. An external valuation was performed to establish the value of the intellectual property primarily from licensed assets from the Mayo Foundation for Medical Education and Research that are currently being evaluated internally for future development plans. As of December 31, 2013, the Company has not begun amortizing the in-process research and development.

Long-Lived Assets

The Company accounts for the impairment and disposition of long-lived assets in accordance with guidance issued by the Financial Accounting Standards Board ("FASB"). Long-lived assets to be held and used are reviewed for events or changes in circumstances that indicate that their carrying value may not be recoverable, or annually. No impairment was recorded for the years ended December 31, 2013 and 2012 and for the period from July 5, 2005 (inception) through December 31, 2013.

CAPRICOR THERAPEUTICS, INC.

(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill

The Company calculates goodwill as the difference between the acquisition date fair value of the estimated consideration paid in the merger and the values assigned to the assets acquired and liabilities assumed. Goodwill is not amortized but is generally subject to an impairment test annually or more frequently if an event or circumstance indicates that an impairment loss may have been incurred. The Company determined the goodwill balance of $1.9 million to be impaired as of December 31, 2013, and charged such amount to other expenses.

Income Taxes

Income taxes are recognized for the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets are recognized for the future tax consequences of transactions that have been recognized in the Company's financial statements or tax returns. A valuation allowance is provided when it is more likely than not that some portion or the entire deferred tax asset will not be realized.

The Company uses guidance issued by the FASB that clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements and prescribes a recognition threshold of more likely than not and a measurement process for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. In making this assessment, a company must determine whether it is more likely than not that a tax position will be sustained upon examination, based solely on the technical merits of the position and must assume that the tax position will be examined by taxing authorities. The Company’s policy is to include interest and penalties related to unrecognized tax benefits in income tax expense. Interest and penalties totaled $0 for the years ended December 31, 2013 and 2012 and for the period from July 5, 2005 (inception) through December 31, 2013. The Company files income tax returns with the Internal Revenue Service (“IRS”) and the California Franchise Tax Board. The Company’s net operating loss carryforwards are subject to IRS examination until they are fully utilized and such tax years are closed.

Loan Payable

The Company accounts for the funds advanced under its California Institute for Regenerative Medicine ("CIRM") Loan Agreement (note 2) as a loan payable as the eventual repayment of the loan proceeds or its forgiveness is contingent upon certain future milestones being met and other conditions. As the likelihood of whether or not the Company will ever achieve these milestones or satisfy these conditions cannot be reasonably predicted at this time, the Company records these amounts as a loan payable.

Research and Development

Costs relating to the design and development of new products are expensed as research and development as incurred in accordance with FASB Accounting Standards Codification ("ASC") 730-10, *Research and Development*. Research and development costs amounted to $5,197,178, $2,634,222 and $11,499,595 for the years ended December 31, 2013 and 2012 and for the period from July 5, 2005 (inception) through December 31, 2013, respectively.

Comprehensive Income (Loss)

Comprehensive income (loss) generally represents all changes in stockholders' equity during the period except those resulting from investments by, or distributions to, stockholders. For the years ended December 31, 2013 and 2012 and for the period from July 5, 2005 (inception) through December 31, 2013, the Company's comprehensive income (loss) was $20,815, $(21,795), and $(980), respectively. The Company's other comprehensive income (loss) is related to a net unrealized gain (loss) on marketable securities.

Stock-Based Compensation

The Company accounts for stock-based employee compensation arrangements in accordance with guidance issued by the FASB, which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees, consultants, and directors based on estimated fair values.

The Company estimates the fair value of stock-based compensation awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in the Company's statements of operations.

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CAPRICOR THERAPEUTICS, INC.

(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Company estimates the fair value of stock-based compensation awards using the Black-Scholes model. This model requires the Company to estimate the expected volatility and value of its common stock and the expected term of the stock options; all of which are highly complex and subjective variables. The variables take into consideration, among other things, actual and projected employee stock option exercise behavior. The Company calculates an average of historical volatility of similar companies as a basis for its expected volatility. Expected term is computed using the simplified method provided within Securities and Exchange Commission Staff Accounting Bulletin No. 110. The Company has selected a risk-free rate based on the implied yield available on U.S. Treasury securities with a maturity equivalent to the expected term of the options.

Earnings (Loss) per Share

Basic earnings (loss) per share is computed using the weighted-average number of common shares outstanding during the period. Diluted earnings (loss) per share are computed using the weighted-average number of common shares and dilutive potential common shares outstanding during the period. Dilutive potential common shares, which primarily consist of stock options issued to employees and warrants issued to third parties, have been excluded from the diluted loss per share calculation because their effect is anti-dilutive.

For the year ended December 31, 2013 and December 31, 2012, warrants and options to purchase 5,220,800 and 5,413,413 shares, respectively, have been excluded from the computation of potentially dilutive securities.

Fair Value Measurements

Assets and liabilities recorded at fair value in the balance sheet are categorized based upon the level of judgment associated with the inputs used to measure their fair value. The categories are as follows:

Level Input:	Input Definition:
Level I	Inputs are unadjusted, quoted prices for identical assets or liabilities in active markets at the measurement date.
Level II	Inputs, other than quoted prices included in Level I, that are observable for the asset or liability through corroboration with market data at the measurement date.
Level III	Unobservable inputs that reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date.

The following table summarizes fair value measurements by level at December 31, 2013 and 2012 for assets and liabilities measured at fair value on a recurring basis:

	December 31, 2013			
	Level I	Level II	Level III	Total
Marketable securities	$326,494	$-	$-	$326,494

	December 31, 2012			
	Level I	Level II	Level III	Total
Marketable securities	$4,192,726	$ -	$ -	$4,192,726

Carrying amounts reported in the balance sheet of cash and cash equivalents, grants receivable and accounts payable and accrued expenses, approximate fair value due to their relatively short maturity. The carrying amounts of the Company’s marketable securities approximate fair value based on market quotations from national exchanges at the balance sheet date. Interest and dividend income are recognized separately on the income statement based on classifications provided by the brokerage firm holding the investments. The fair value of borrowings is not considered to be significantly different than its carrying amount because the stated rates for such debt reflect current market rates and conditions.

CAPRICOR THERAPEUTICS, INC.

(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Warrant Liability

The Company accounts for some of its warrants issued in accordance with the guidance on Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity, which provides that the Company classifies the warrant instrument as a liability at its fair value and adjusts the instrument to fair value at each reporting period. The fair value of warrants is estimated by management using Black-Scholes. This liability is subject to re-measurement at each balance sheet date until exercised, and any change in fair value is recognized as a component of other income or expense. Prior to the merger between Nile and Capricor, the Company and holders of warrants to purchase shares of common stock entered into agreements pursuant to which such holders agreed to receive an aggregate of 59,546 shares of the Company's common stock in exchange for the cancellation and surrender of their warrants. No proceeds were received by the Company from these issuances. Management has determined the value of warrant liability to be insignificant at December 31, 2013.

2. LOAN PAYABLE

On February 5, 2013, Capricor entered into a Loan Agreement with CIRM (the "CIRM Loan Agreement"), pursuant to which CIRM agreed to disburse $19,782,136 to Capricor over a period of three and one-half years to support Phase II of the ALLSTAR clinical trial.

Under the CIRM Loan Agreement, Capricor is required to repay the CIRM loan with interest at the end of the loan period. The loan also provides for the payment of a risk premium whereby Capricor is required to pay CIRM a premium of up to 500% of the loan amount upon the achievement of certain revenue thresholds. The loan has a term of five years and is extendable annually up to ten years at Capricor's option if certain conditions are met. The interest rate for the initial term is set at the one-year LIBOR rate plus 2% ("base rate"), compounded annually, and becomes due at the end of the fifth year. After the fifth year, if the term of the loan is extended and if certain conditions are met, the interest rate will increase by 1% over the base rate each sequential year thereafter, with a maximum increase of 5% over the base rate in the tenth year. CIRM has the right to cease disbursements if a no-go milestone occurs or certain other conditions are not met. Under the terms of the CIRM Loan Agreement, CIRM deducted $36,667 from the initial

disbursement to cover its costs in conducting financial due diligence on Capricor. CIRM will also deduct $16,667 from each disbursement made in the second and third year of the loan period to cover its costs of continuing due diligence. So long as Capricor is not in default under the terms of the CIRM Loan Agreement, the loan may be forgiven during the term of the project period if Capricor abandons the trial due to the occurrence of a no-go milestone. After the end of the project period, the loan may also be forgiven if Capricor elects to abandon the project under certain circumstances. Under the CIRM Loan Agreement, Capricor is required to meet certain financial milestones by demonstrating to CIRM prior to each disbursement of loan proceeds that it has funds available sufficient to cover all costs and expenses anticipated to be required to continue Phase II of the ALLSTAR trial for at least the following 12-month period, less the costs budgeted to be covered by planned loan disbursements. Capricor will not issue stock, warrants or other equity to CIRM in connection with this award.

The timing of the distribution of funds pursuant to the CIRM Loan Agreement shall be contingent upon the availability of funds in the California Stem Cell Research and Cures Fund in the State Treasury, as determined by CIRM in its sole discretion.

Capricor did not issue stock, warrants or other equity to CIRM in connection with this award. The due diligence costs to be deducted from each disbursement are capitalized and amortized to general and administrative expenses over the remaining term of the loan. As of December 31, 2013, $36,667 of loan costs were capitalized with $6,722, $0, and $6,722 expensed for the years ended December 31, 2013 and December 31, 2012 and the period from July 5, 2005 (inception) through December 31, 2013, respectively, with the balance of $29,945 to be amortized over the next 4.1 years.

On February 6, 2013, Capricor received loan proceeds of $857,267, net of loan costs. This loan amount will carry interest at the initial rate 2.77% per annum.

On July 8, 2013, Capricor received its second disbursement under the loan award for $3,067,799. This disbursement will carry interest at the initial rate of 2.45% per annum. A portion of the principle disbursed under the second disbursement is currently being recorded as restricted cash, as Capricor must expend for approved project costs in order to use these funds. For the year ended December 31, 2013 and for the period from July 5, 2005 (inception) through December 31, 2013, interest expense under the CIRM loan was $58,134 and $58,134, respectively.

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3. STOCKHOLDER'S EQUITY

Reverse Stock Split

On November 20, 2013, we effected a reverse split of our common stock, par value $0.001 per share, at a ratio of one-for-fifty. Unless otherwise indicated, all share amounts, per share data, share prices, exercise prices and conversion rates set forth in these consolidated financial statements and related notes, where applicable, have been adjusted retroactively to reflect this reverse stock split.

Outstanding Shares

At December 31, 2013, there were 11,687,747 common shares issued and outstanding.

Conversion of all Convertible Preferred Stock at the Merger

Prior to the Merger and without giving effect to the applicable multiplier, Capricor was authorized to issue 5,426,844 shares of convertible preferred stock, which was allocated as follows: Series A-1: 940,000 shares, all of which were issued; Series A-2: 736,844 shares, all of which were issued; and Series A-3: 3,750,000 shares, of which 1,500,000 shares were issued. During 2011 and 2012, the 1,500,000 shares of Series A-3 convertible preferred stock, with a par value of $0.001 per share were issued for cash proceeds of $6,000,000. Immediately prior to the Effective Time, all shares of Capricor preferred stock were converted into shares of Capricor common stock pursuant to the terms of the Merger Agreement. The shares of Capricor preferred stock that were converted into Capricor common stock as a result of the Merger and in accordance with the terms of the Merger Agreement, were exchanged according to the applicable multiplier for 6,591,494 shares of common stock of the Company, and all rights and preferences (including dividends) attached to the shares of Capricor preferred stock were rendered void. The preferred shares are presented retrospectively as shares of common stock on an as-converted basis.

4.STOCK OPTIONS AND WARRANTS

Capricor, Inc. Warrants

During the year ended December 31, 2009, Capricor issued warrants to purchase shares of common stock in conjunction with the issuance of the Series A-2 Preferred Stock. Upon consummation of the merger on November 20, 2013, the warrants terminated per the terms of the original warrant agreement with no warrants being exercised prior to the termination.

Capricor Therapeutics, Inc. Warrants

In connection with its July 2009 private placement, the Company issued five-year warrants to purchase an additional 53,827 shares of common stock. The warrants were issued in three separate tranches, as follows:

- Warrants to purchase approximately 13,457 shares, representing 25% of the total warrant shares issued to investors, have an exercise price equal to $62.50
- Warrants to purchase approximately 13,457 shares, representing 25% of the total warrant shares issued to investors, have an exercise price equal to $85.50.
- Warrants to purchase approximately 26,913 shares, representing 50% of the total warrant shares issued to investors, have an exercise price equal to $114.00.

The warrants issued to investors in the July 2009 private placement are redeemable by the Company upon 30 days' notice, if at any time, the volume weighted average price of the common shares for any 20 consecutive business days is equal to or greater than 200% of the applicable exercise price of each warrant.

As consideration for its services as placement agent in connection with the July 2009 private placement, the Company also issued to designees of Riverbank Capital Securities, Inc. five-year warrants to purchase 4,366 shares of common stock at a price of $68.75 per share.

At the consummation of the merger, 317 shares of common stock were issued in exchange for the forfeiture of approximately 26,693 warrants issued as part of the July 2009 private placement. There are approximately 28,400 warrants remaining outstanding as of December 31, 2013 as part of the July 2009 private placement, with a weighted average exercise price of $94.00.

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CAPRICOR THERAPEUTICS, INC.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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4. STOCK OPTIONS AND WARRANTS (continued)

In connection with the April 2010 Offering, the Company issued a total of 44,850 Unit Warrants, each of which has a term of five years and represents the right to purchase one share of the Company's common stock at an exercise price of $47.00 per share. In addition, the Company issued the underwriters a five-year warrant to purchase 7,800 shares of the Company's common stock at an exercise price of $47.00 per share. There are 52,650 warrants remaining outstanding as of December 31, 2013 as part of the April 2010 Offering, with a weighted average exercise price of $47.00.

In connection with the 2011 Offering, the Company issued a total of 50,000 warrants, each of which has a term of five years and represents the right to purchase one share of the Company's common stock at an exercise price of $30.00 per share. In addition, the Company issued to the Placement Agents a five-year warrant to purchase 5,000 shares of the Company's common stock at an exercise price of $30.00 per share. On August 1, 2013, the Company and the holders of warrants issued in connection with the Company's 2011 Offering entered into warrant exchange agreements whereby the Company issued a total of 9,166 shares of its common stock on a post-Reverse Stock Split basis. As a result, all of the warrants issued in connection with the June 2011 private placement were cancelled. No proceeds were received by the Company from this issuance.

In connection with the April 2012 financing, the Company issued a total of 50,250 warrants, each of which has a term of five years and represents the right to purchase one share of the Company's common stock at an exercise price of $25.00 per share. The warrants contained a non-standard anti-dilution features, such that, in the event the Company issues common shares at a price below the current exercise price of the warrants, the exercise price of the warrants will be adjusted based on the lower issuance price. This feature was triggered upon the conversion of the 2013 Notes. In previous years, management used a binomial option pricing model to determine the warrant liability. Upon consummation of the merger, 50,063 warrants were cancelled and exchanged for 50,063 shares of the Company's common stock. Management has determined that any additional liability is insignificant. There are 187 warrants remaining outstanding as of December 31, 2013 as part of the April 2012 financing, with a weighted average exercise price of $2.2725.

At the close of the merger between Nile and Capricor on November 20, 2013, certain convertible notes payable were converted into 251,044 shares of our common stock on a post-Reverse Stock Split basis. Additionally, 251,044

warrants to purchase shares of our common stock at a strike price of $2.2725, on a post-Reverse Stock Split basis, were issued to the holders of the 2013 Notes and certain additional notes issued in connection with the 2013 Notes.

The following schedule represents warrant activity for the year ended December 31, 2013:

	Warrants	Weighted Average Exercise Price
Outstanding at January 1, 2013	1,733,599	$ 3.38
Cancelled	(1,733,599)	3.38
Assumed from merger	81,237	63.33
Granted	251,044	2.27
Outstanding at December 31, 2013	332,281	$ 17.20

Stock Options

The Company’s Board of Directors has approved four stock option plans: (i) the Amended and Restated 2005 Stock Option Plan (ii) the 2006 Capricor Stock Option Plan, (iii) the 2012 Capricor Restated Equity Incentive Plan (which has superseded the 2006 Stock Option Plan) (the “2012 Plan”), and (iv) the 2012 Capricor Non-Employee Director Stock Option Plan (the “2012 Non-Employee Director Plan”).

The Company’s Amended and Restated 2005 Stock Option Plan (the “Plan”) was initially adopted by the Board of Directors on August 10, 2005. On July 26, 2010, the Company’s stockholders approved an amendment to the Plan increasing the total number of shares authorized for issuance thereunder to 190,000 after the effects of the Reverse Stock Split at the consummation of the merger. Under the Plan, incentives may be granted to officers, employees, directors, consultants, and advisors. Incentives under the Plan may be granted in any one or a combination of the following forms: (a) incentive stock options and non-statutory stock options, (b) stock appreciation rights, (c) stock awards, (d) restricted stock and (e) performance shares.

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4.STOCK OPTIONS AND WARRANTS (continued)

After the effects of the Merger, the 2012 Plan reserved 4,149,710 shares for the grant of stock options, stock appreciation rights, restricted stock awards and performance unit/share awards to employees, consultants and other service providers. Included in the 2012 Plan are the shares that were originally reserved under the 2006 Stock Option Plan. Under the 2012 Plan, each option will be designated in the Award Agreement as either an Incentive Stock Option or a Nonstatutory Stock Option. Notwithstanding such designation, however, to the extent that the aggregate fair market value of the shares with respect to which Incentive Stock Options are exercisable for the first time by the participant during any calendar year (under all plans of the Company and any parent or subsidiary) exceeds one hundred thousand dollars ($100,000), such options will be treated as Nonstatutory Stock Options.

After the effects of the merger, the 2012 Non-Employee Director Plan reserved 2,697,311 shares for the grant of stock options to members of the Board of Directors, who are not employees of the Company.

Each of the plans are administered by the Board of Directors, or a committee appointed by the Board, which determines the recipients and types of awards to be granted, as well as the number of shares subject to the awards, the exercise price and the vesting schedule. Currently, stock options are granted with an exercise price equal to closing price of the Company’s common stock on the date of grant, and generally vest over a period of one to four years. The term of stock options granted under each of the plans cannot exceed ten years.

The estimated weighted average fair values of the options granted during 2013 and 2012 were $0.53 and $0.60 per share, respectively.

The Company estimates the fair value of each option award using the Black-Scholes option-pricing model. The following assumptions we used for stock options issued in the year ended December 31, 2013 and December 31, 2012:

	December 31, 2013	December 31, 2012
Expected volatility	118%	100%
Expected term	0.1-7 years	5-7 years
Dividend yield	0%	0%
Risk-free interest rates	0.13-2.3%	0.63-1.34%

Employee stock-based compensation costs for the year ended December 31, 2013 and 2012 and for the cumulative period from July 5, 2005 (inception) through December 31, 2013, are as follows:

	Year ended December 31,		Period from July 5, 2005 (inception) through December 31, 2013
	2013	2012	
General and administrative	$263,593	$332,347	$ 666,123

The following table summarizes information about stock options outstanding and exercisable at December 31, 2013:

Shares Outstanding Range of Ex. Prices	Shares Outstanding	WA Term (yrs.)	WA Exercise Price
$0.16 - $0.19	100,627	4.80	$ 0.17
$0.30 - $0.37	4,709,838	8.36	$ 0.36
$0.87	56,021	4.95	$ 0.87
$18.50 - $28.50	10,330	1.89	$ 23.43
$34.00 - $44.50	11,703	0.59	$ 43.60
	4,888,519	8.22	$ 0.51

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4. STOCK OPTIONS AND WARRANTS (continued)

Shares Exercisable			
Range of Ex. Prices	Shares Exercisable	WA Term (yrs.)	WA Exercise Price
$0.16 - $0.19	96,487	4.71	$ 0.17
$0.30 - $0.37	2,360,885	8.08	$ 0.37
$0.87	56,021	4.95	$ 0.87
$18.50 - $28.50	10,330	1.89	$ 23.43
$34.00 - $44.50	11,703	0.59	$ 43.60
	2,535,426	7.83	$ 0.67

As of December 31, 2013, the total unrecognized fair value compensation cost related to non-vested stock options was $600,539 which is expected to be recognized over approximately 2.7 years.

Common stock, stock options or other equity instruments issued to non-employees (including consultants) as consideration for goods or services received by the Company are accounted for based on the fair value of the equity instruments issued (unless the fair value of the consideration received can be more reliably measured). The fair value of stock options is determined using the Black-Scholes option-pricing model and is periodically re-measured as the underlying options vest. The fair value of any options issued to non-employees is recorded as expense over the applicable vesting periods.

As of December 31, 2013, there were options granted and outstanding to purchase 4,888,519 shares of the Company’s common stock under the plans to employees and non-employees. During the year ended December 31, 2013 and 2012, 1,186,672 and 2,942,207 options, respectively, were granted to employees and non-employees under the plans.

The following is a schedule summarizing stock option activity for the year ended December 31, 2013:

	Number of Options	Weighted Average Exercise Price
Outstanding at January 1, 2013	3,679,814	$ 0.37
Granted	1,186,672	0.31
Assumed from merger	22,033	34.15
Exercised	-	-
Outstanding at December 31, 2013	4,888,519	$ 0.51
Exercisable at December 31, 2013	2,535,426	$ 0.67

5. CONCENTRATIONS

Cash Concentration

The Company has historically maintained checking accounts at two financial institutions. These accounts collectively are insured by the Federal Deposit Insurance Corporation up to $250,000. Historically, the Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents. As of December 31, 2013 the Company maintained $3,274,631 of uninsured deposits.

6. COMMITMENTS AND CONTINGENCIES

Leases

Capricor leases space for its corporate offices pursuant to a lease effective for a two year period beginning July 1, 2013. The monthly payment will be $16,620 per month for the first twelve months of the term, and will increase to $17,285 per month for the second twelve months of the term. Capricor, Inc. also leases research facilities from Cedars-Sinai Medical Center, a shareholder of the Company, currently on a month-to-month basis.

Total rent expense to unrelated parties for the year ended December 31, 2013 and 2012 and for the period from July 5, 2005 (inception) through December 31, 2013 was $154,536, $61,782 and $216,318, respectively. Total rent expense to the related party for the year ended December 31, 2013 and 2012 and for the period from July 5, 2005 (inception) through December 31, 2013 was $54,648, $54,648, and $323,334, respectively.

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6. COMMITMENTS AND CONTINGENCIES (continued)

Legal Contingencies

Periodically the Company may become involved in certain legal actions and claims arising in the ordinary course of business. There were no legal actions or claims reported at December 31, 2013.

7. LICENSE AGREEMENTS

Capricor's Technology - CAP-1002, CAP-1001 and CSps

Capricor has entered into exclusive license agreements for intellectual property rights related to cardiac derived cells with Università Degli Studi Di Roma at la Sapienza (the University of Rome), JHU and CSMC. In addition, Capricor has filed patent applications related to enhancements or validation of the technology developed by its own scientists.

University of Rome License Agreement

Capricor and the University of Rome entered into a License Agreement, dated June 21, 2006 (the Rome License Agreement), which provides for the grant of an exclusive, world-wide, royalty-bearing license by the University of Rome to Capricor (with the right to sublicense) to develop and commercialize licensed products under the licensed patent rights in all fields. With respect to any new or future patent applications assigned to the University of Rome utilizing cardiac stem cells in cardiac care, Capricor has a first right of negotiation for a certain period of time to obtain a license thereto.

Pursuant to the Rome License Agreement, Capricor paid the University of Rome a license issue fee, as well as minimum annual royalties, and is obligated to pay a royalty received as a result of sublicenses granted. The minimum annual royalties are creditable against future royalty payments.

The Rome License Agreement will, unless extended or sooner terminated, remain in effect until the later of the last claim of any patent or until any patent application comprising licensed patent rights has expired or been abandoned. Under the terms of the Rome License Agreement, either party may terminate the agreement should the other party become insolvent or file a petition in bankruptcy. Either party shall have up to 90 days to cure its material breach.

The Johns Hopkins University License Agreement

Capricor and JHU entered into an Exclusive License Agreement, effective June 22, 2006 (the JHU License Agreement), which provides for the grant of an exclusive, world-wide, royalty-bearing license by JHU to Capricor (with the right to sublicense) to develop and commercialize licensed products and licensed services under the licensed patent rights in all fields and a nonexclusive right to the know-how. In May 2009, the JHU License Agreement was amended to add additional patent rights to the License Agreement in consideration of a payment to JHU and reimbursement of patent costs. Capricor and JHU executed a Second Amendment to the JHU License Agreement, effective as of December 20, 2013, pursuant to which, among other things, certain definitions were added or amended, the timing of certain obligations was revised and other obligations of the parties were clarified.

Pursuant to the JHU License Agreement, JHU was paid an initial license fee and, thereafter, Capricor is required to pay minimum annual royalties on the anniversary dates of the JHU License Agreement. The minimum annual royalties are creditable against running royalties on net sales of products and net service revenues which Capricor is also required to pay under the JHU License Agreement. In addition, Capricor is required to pay a certain percentage of the consideration received by it from sublicenses granted, and is required to pay JHU certain defined development milestone payments upon the successful completion of certain phases of its clinical studies and upon receiving FDA approval. These milestone payments range from $100,000 at the time Phase I is fully complete to $1,000,000 if FDA approval has been received. As of December 31, 2013, $100,000 has been accrued as the Phase I enrollment has been completed.

The JHU License Agreement will, unless sooner terminated, continue in effect in each applicable country until the date of expiration of the last to expire patent within the patent rights, or, if no patents are issued, then for twenty years from the effective date. Under the terms of the JHU License Agreement, either party may terminate the agreement should the other party become insolvent or file a petition in bankruptcy, or fail to cure a material breach within 30 days after notice. In addition, Capricor may terminate for any reason upon 60 days’ written notice.

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7. LICENSE AGREEMENTS (continued)

Cedars-Sinai Medical Center License Agreement

On January 4, 2010, Capricor entered into an Exclusive License Agreement with CSMC (the CSMC License Agreement), for certain intellectual property rights. In 2013, the CSMC License Agreement was amended twice resulting in, among other things, a reduction in the percentage of sublicense fees which would have been payable to CSMC. Effective December 30, 2013, Capricor entered into an Amended and Restated Exclusive License Agreement with CSMC (the Amended CSMC License Agreement) pursuant to which, among other things, certain definitions were added or amended, the timing of certain obligations was revised and other obligations of the parties were clarified.

The Amended CSMC License Agreement provides for the grant of an exclusive, world-wide, royalty-bearing license by CSMC to Capricor (with the right to sublicense) to conduct research using the patent rights and know-how and develop and commercialize products in the field using the patents rights and know-how. In addition, Capricor has the exclusive right to negotiate for an exclusive license to any future rights arising from related work conducted by or under the direction of Dr. Eduardo Marbán on behalf of CSMC. In the event the parties fail to agree upon the terms of an exclusive license, Capricor shall have a non-exclusive license to such future rights, subject to royalty obligations.

Pursuant to the CSMC License Agreement, CSMC was paid a license fee and Capricor was obligated to reimburse CSMC for certain fees and costs incurred in connection with the prosecution of certain patent rights. Additionally, Capricor was required to meet certain spending and development milestones. Pursuant to the Amended CSMC License Agreement, Capricor remains obligated to pay royalties on sales of royalty-bearing products as well as a percentage of the consideration received from any sublicenses or other grant of rights. In 2010, Capricor discontinued its research under some of the patents.

The Amended CSMC License Agreement will, unless sooner terminated, continue in effect on a country by country basis until the last to expire of the patents covering the patent rights or future patent rights. Under the terms of the Amended CSMC License Agreement, unless waived by CSMC, the agreement shall automatically terminate: (i) if

Capricor ceases, dissolves or winds up its business operations; (ii) in the event of the insolvency or bankruptcy of Capricor or if Capricor makes an assignment for the benefit of its creditors; (iii) if performance by either party jeopardizes the licensure, accreditation or tax exempt status of CSMC or the agreement is deemed illegal by a governmental body; (iv) within 30 days for non-payment of royalties; (v) within 90 days if Capricor fails to undertake commercially reasonable efforts to exploit the patent rights or future patent rights; (vi) if a material breach has not been cured within 90 days; or (vii) if Capricor challenges any of the CSMC patent rights. Capricor may terminate the agreement if CSMC fails to cure any material breach within 90 days after notice.

Collaboration Agreement with Janssen Biotech, Inc.

On December 27, 2013, Capricor entered into a Collaboration Agreement and Exclusive License Option with Janssen Biotech, Inc., or Janssen, a wholly-owned subsidiary of Johnson & Johnson. Under the terms of the agreement, Capricor and Janssen agreed to collaborate on the development of Capricor's cell therapy program for cardiovascular applications, including its lead product, CAP-1002. Capricor and Janssen further agreed to collaborate on the development of cell manufacturing in preparation for future clinical trials. Under the agreement, Capricor was paid $12.5 million in January 2014, and Capricor will contribute to the costs of development of a chemistry, manufacturing and controls (CMC) package. In addition, Janssen has the exclusive right to enter into an exclusive license agreement pursuant to which Janssen would receive a worldwide, exclusive license to exploit CAP-1002 as well as certain allogeneic cardiospheres and cardiosphere-derived cells in the field of cardiology. Janssen has the right to exercise the option at any time until 60 days after the delivery by Capricor of the six-month follow-up results from Phase II of Capricor's ALLSTAR clinical trial for CAP-1002. If Janssen exercises its option rights, Capricor would receive an upfront license fee and additional milestone payments which may total up to $325.0 million. In addition, a double-digit royalty would be paid on sales of licensed products.

Company's Technology – Cenderitide and CU-NP

The Company has entered into an exclusive license agreement for intellectual property rights related to natriuretic peptides with the Mayo Foundation for Medical Education and Research and a Clinical Trial Funding Agreement with Medtronic, Inc., which also includes certain intellectual property licensing provisions.

Mayo License Agreement

The Company and the Mayo Foundation for Medical Education and Research, or Mayo, previously entered into a Technology License Agreement with respect to cenderitide on January 20, 2006. On June 13, 2008, the Company and Mayo entered into a Technology License Agreement with respect to CU-NP (the CU-NP Agreement). On November 14, 2013, the Company entered into an Amended and Restated License Agreement with Mayo (the Amended Mayo Agreement). The Amended Mayo Agreement amends and restates in its entirety each of the CD-NP Agreement and the CU-NP Agreement, and creates a single amended and restated license agreement between the Company and Mayo with respect to CD-NP and CU-NP.

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7. LICENSE AGREEMENTS (continued)

The Amended Mayo Agreement provides for the grant of an exclusive, world-wide, royalty-bearing license by Mayo to the Company (with the right to sublicense) under the Mayo patents, patent applications and improvements, and a nonexclusive right under the know-how, for the development and commercialization of CD-NP and CU-NP in all therapeutic indications. With respect to any future patents and any improvements related to cenderitide and CU-NP owned by or assigned to Mayo, the Company has the exclusive right of first negotiation for the exclusive or non-exclusive rights (at the Company's option) thereto. Such exclusive right of negotiation shall be effective as of June 1, 2016, or such earlier date when the Company has satisfied certain payment obligations to Mayo.

Under each of the previous CD-NP Agreement and CU-NP Agreement, the Company paid Mayo up-front cash payments and the Company agreed to make certain performance-based cash payments to Mayo upon successful completion of certain milestones. Additionally, the Company issued certain amounts of common stock of the Company to Mayo under each agreement. The Amended Mayo Agreement restructured the economic arrangements of the CD-NP Agreement and CU-NP Agreement by, among other things, eliminating certain milestone payments and decreasing the royalty percentages payable upon the commercial sale of the products. Pursuant to the terms of the Amended Mayo Agreement, the Company agreed to pay to Mayo an annual license maintenance fee and to issue to Mayo an additional 18,000 shares of the Company's common stock as additional consideration for the grant of certain rights. Mayo also agreed to waive or defer the payment of certain fees owed to Mayo. All breaches and defaults by the Company under the terms of the CD-NP Agreement and CU-NP Agreement were waived by Mayo in the Amended Mayo Agreement.

The Amended Mayo Agreement will, unless sooner terminated, expire on the later of (i) the expiration of the last to expire valid claim contained in the Mayo patents, or (ii) the 20th anniversary of the Amended Mayo Agreement. Under the terms of the Amended Mayo Agreement, Mayo may terminate the agreement earlier (i) for the Company's material breach of the agreement that remains uncured after 90 days' written notice to the Company, (ii) for the Company's insolvency or bankruptcy, (iii) if the Company challenges the validity or enforceability of any of the patent rights in any manner, or (iv) if the Company has not initiated either the next clinical trial of cenderitide within two years of the effective date of the Amended Mayo Agreement or a clinical trial of CU-NP within two and one-half years of the effective date. The Company may terminate the Amended Mayo Agreement without cause upon 90 days' written notice.

We license certain patent and other intellectual property rights that cover our cenderitide and CU-NP product candidates from Mayo. In the past, we have relied on Mayo to file, prosecute and maintain patent applications, and to otherwise protect the intellectual property to which we have a license. Prior to the Amended Mayo License Agreement, we did not have primary control over these activities for certain of these patents or patent applications and other intellectual property rights. With the execution of the Amended Mayo License Agreement, we have the responsibility for the prosecution and maintenance of the Mayo patents and patent applications at our expense. We cannot be certain that the activities conducted by Mayo have been or will be conducted in compliance with applicable laws and regulations, or will result in valid and enforceable patents and other intellectual property rights. Our enforcement of certain of these licensed patents or defense of any claims asserting the invalidity of these patents would also be subject to the cooperation of the third parties. We are also responsible for paying any prosecution and maintenance fees of all Mayo patents and Mayo patent applications now existing and included in the Amended Mayo License Agreement.

Medtronic Clinical Trial Funding Agreement

In February 2011, the Company entered into a Clinical Trial Funding Agreement with Medtronic, Inc. (Medtronic). Pursuant to the agreement, Medtronic provided funding and equipment necessary for us to conduct a Phase I clinical trial to assess the pharmacokinetics and pharmacodynamics of cenderitide when delivered to heart failure patients through continuous subcutaneous infusion using Medtronic’s pump technology.

Pursuant to its terms, the agreement expired in February 2012, following the completion of the Phase I clinical trial and the delivery of data and reports related to such study. Although the Medtronic agreement expired, there are certain provisions that survive the expiration of the agreement, including the obligation to pay royalties on products that might be covered by the Joint Intellectual Property.

8. RELATED PARTY TRANSACTIONS

Lease and Sub-Lease Agreements

Capricor leases space for its research facilities from CSMC, a shareholder of Capricor Therapeutics, Inc. (see note 6).

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DECEMBER 31, 2013 AND 2012

8. RELATED PARTY TRANSACTIONS (continued)

Beginning May 1, 2012, pursuant to a sublease agreement, Capricor subleased part of its office space to Frank Litvack, the Company's Executive Chairman, for $2,500 per month. On April 1, 2013, Capricor entered into a sublease with Reprise Technologies, LLC, a limited liability company which is wholly owned by Dr. Litvack, for $2,500 per month. The sublease is on a month-to-month basis. Capricor recognized $30,000, $20,000 and $50,000 in sublease income from the related party during the year ended December 31, 2013 and 2012, and for the period from July 5, 2005 (inception) through December 31, 2013, respectively. Sublease income is recorded as a reduction to general and administrative expenses.

Consulting Agreements

Effective May 1, 2012 Frank Litvack, the Company's Executive Chairman entered into a consulting agreement for $4,000 per month for consulting services. Effective January 1, 2013, the payment amount was increased to $10,000 per month payable for consulting services. On March 24, 2014, Capricor entered into a consulting agreement with Dr. Litvack memorializing the $10,000 per month compensation arrangement described above. The agreement is terminable upon 30 days' notice.

Sub-Award Agreement

Effective January 30, 2012, Capricor, Inc. entered into a sub-award agreement with CSMC. Sub-award payments totaling approximately $249,019, $244,069 and $503,899 were paid to CSMC during the year ended December 31, 2013 and 2012, and for the period from July 5, 2005 (inception) through December 31, 2013, respectively. At December 31, 2013, the Company had sub-awards payable of $41,855.

Payables to Related Party

At December 31, 2013 and 2012, the Company had accounts payable and accrued expenses, which excludes the sub-award payable, to CSMC totaling $382,142 and $164,484, respectively.

9.SUBSEQUENT EVENTS

On January 7, 2014, Capricor received a payment from Janssen Biotech, Inc. for $12.5 million pursuant to the terms of the Collaboration Agreement and Exclusive License Option entered into on December 27, 2013.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We have adopted and maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Principal Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that controls and procedures, no matter how well designed and operated, cannot provide absolute assurance of achieving the desired control objectives.

As required by Rule 13a-15(b), under the Securities Exchange Act of 1934, as amended, we carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Principal Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based on the foregoing, our Chief Executive Officer and Principal Financial Officer concluded that as of December 31, 2013, our disclosure controls and procedures were effective at the reasonable assurance level.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) and 15d-15(f) of the Securities Exchange Act of 1934, as amended. Our internal control over financial reporting is a process designed to provide reasonable assurance to our management and Board of Directors regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements, errors or fraud. Also, projections of any evaluations of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2013. The assessment was based upon the framework described in the "Integrated Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 Framework) ("COSO"). Based on that assessment, management has concluded that our internal control over financial reporting was effective as of December 31, 2013.

This Annual Report on Form 10-K does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to rules of the SEC that permit smaller reporting companies to provide only management's report in this Annual Report on Form 10-K.

Changes in Internal Controls over Financial Reporting

There have been no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended) during the fiscal year ended December 31, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

Part III

ITEM 10. Directors, Executive Officers and Corporate Governance

Directors and Executive Officers

The following table lists our executive officers and directors and their respective ages and positions as of the date of this report:

Name	Age	Positions Held
Linda Marbán, Ph.D.	50	President, Chief Executive Officer and Director
Anthony Bergmann, M.B.A.	28	Principal Financial Officer and Vice President of Finance
Karen G. Krasney, J.D.	61	Executive Vice President and General Counsel
Andrew Hamer, M.D.	52	Vice President of Medical Affairs
Anthony Davies, Ph.D.	49	Chief Technology Officer
Rachel Smith, Ph.D.	35	Vice President of Research and Development
Frank Litvack, M.D.	58	Executive Chairman and Director
Joshua Kazam	36	Director
Gregory W. Schafer	48	Director
Earl M. (Duke) Collier, Jr.	65	Director
David B. Musket	55	Director
Louis Manzo	76	Director
Louis J. Grasmick	89	Director
George W. Dunbar, Jr.	66	Director

Linda Marbán, Ph.D. Dr. Marbán is currently serving as our Chief Executive Officer. Co-founder of Capricor, Dr. Marbán has been with Capricor since 2005 and became its Chief Executive Officer in 2010. She combines her background in research with her business experience to lead Capricor and create a path to commercialization for its novel stem-cell cardiac therapies. Dr. Marbán was the lead negotiator in procuring the license agreements that are the foundation of Capricor's intellectual property portfolio. Under her direction as Chief Executive Officer, Capricor secured approximately $27.0 million in non-dilutive grants and a loan award which funds Capricor's R&D programs and clinical trials involving its CAP-1002 product. Dr. Marbán's deep knowledge of the cardiac space in particular, allows her to provide unique direction for the company's development and growth. From 2003 to 2009, Dr. Marbán was with Excigen, Inc., a biotechnology start-up company, where she was responsible for business development, operations, pre-clinical research, and supervising the development of gene therapy products in a joint development agreement with Genzyme Corp. While at Excigen, she also negotiated a joint development and sublicense agreement with Medtronic Corp. utilizing Excigen's technology and supervised the building of a lab in which the work was to be performed. Dr. Marbán began her career in academic science, first at the Cleveland Clinic Foundation working on the biophysical properties of cardiac muscle. That work continued when she moved to a postdoctoral fellowship at Johns Hopkins University, or JHU. While at JHU, she advanced to the rank of Research Assistant Professor in the

Department of Pediatrics, continuing her work on the mechanism of contractile dysfunction in heart failure. Her tenure at JHU ran from 2000 to 2003. Dr. Marbán earned a Ph.D. from Case Western Reserve University in cardiac physiology.

Anthony Bergmann, M.B.A. Mr. Bergmann currently serves as our Vice President of Finance. Mr. Bergmann previously worked at the business management firm, Gettleson, Witzer and O'Connor, in Beverly Hills, California beginning in 2008, where he focused on accounting and finance for several production studios generating motion picture releases and worldwide revenue exceeding $1 billion. The firm's clients included foundations, trusts, and independent actors, writers, producers and directors across the entertainment industry. While at the firm, he focused on budgeting, tax forecasting and asset management. Mr. Bergmann joined Capricor in 2011 and has served as the Director of Finance since 2012. He was recently made Vice President of Finance of Capricor. He also serves as Capricor's corporate treasurer. Mr. Bergmann was instrumental in facilitating the company's Series A-3 $6.0 million Preferred Stock offering and helped structure the company's successful $19.8 million budget proposal to the California Institute for Regenerative Medicine for the company's Phase II clinical trial. Mr. Bergmann is responsible for all aspects of the Company's finance, accounting and HR functions. Mr. Bergmann graduated from Providence College with a BS in Management, and a minor in Finance. He has an MBA from the University of Southern California's Marshall School of Business. He is actively involved in various venture capital and entrepreneurial associations throughout the Los Angeles area.

Karen G. Krasney, J.D. Ms. Krasney is currently serving as our Executive Vice President, Secretary and General Counsel. Ms. Krasney's career spans over 35 years serving as General Counsel for numerous corporations and private companies engaged in a wide variety of industries. Her extensive background and vast experience has been focused on domestic and international corporate and business law, as well as litigation. Ms. Krasney has been involved in the medical technology arena since the mid 1990's, representing several medical technology companies developing products for the treatment of cardiovascular disease. Commencing in 2002, Ms. Krasney served as legal counsel of Biosensors International Group Ltd., a multinational medical device company that develops, manufactures and sells medical devices for cardiology applications. In 2006, she accepted the position of General Counsel and Executive Vice President of Biosensors and served in that capacity until 2010. During her tenure at Biosensors, among other things, Ms. Krasney headed the legal team that facilitated the company's successful initial public offering in Singapore and was responsible for negotiating and documenting all agreements for the company worldwide, including licensing agreements with major medical device companies and agreements required for the company's international clinical trials. Ms. Krasney has been providing legal services to Capricor since 2011 and in 2012 joined Capricor as its Executive Vice President and General Counsel. Ms. Krasney also serves as a director on the Board of Cardiovascular Research Foundation, a non-profit research and education entity. Ms. Krasney received her Bachelor of Arts degree from the University of California, Los Angeles and her Juris Doctorate from the University of Southern California.

Andrew Hamer, M.D. Dr. Hamer is currently serving as our Vice President of Medical Affairs. He completed internal medicine and cardiology training at Green Lane Hospital in Auckland, New Zealand, having completed his degree in medicine from Otago University. Dr. Hamer also completed a Senior Cardiology Fellowship at the Deaconess Hospital and at Harvard Medical School in Boston. He served as Chairman of the New Zealand branch of the Cardiac Society of Australia and New Zealand from 2008 to 2009. In 2008, Dr. Hamer also co-chaired the Cardiac Surgery Services Development Working Group (CSSDG). In 2009, Dr. Hamer was selected by the Minister of Health to lead the development of the National Cardiac Surgery Clinical Network to oversee the implementation of the CSSDG recommendations, leading to substantial improvements in cardiac surgery delivery in New Zealand. In 2011, Dr. Hamer was asked to lead the expansion of the network to incorporate all of the cardiac services, forming the New Zealand Cardiac Clinical Network. In this role he led the implementation of national strategies to improve the equity and access to cardiac services and the establishment of national registries for acute coronary syndrome, percutaneous coronary intervention and cardiac surgery to enable continuous quality improvement from a local to national level. Dr. Hamer joined Capricor in November 2013 as the Vice President of Medical Affairs. Throughout this time, Dr. Hamer has been a cardiologist and internal medicine specialist at Nelson Hospital, where he has been a principal investigator for over 40 multi-center clinical trials in acute coronary syndrome, cholesterol, hypertension, heart failure, diabetes and atrial fibrillation management.

Anthony Davies, Ph.D. Dr. Davies joined Capricor in February, 2013 as the Chief Technology Officer, where he was responsible for the manufacturing, development and expansion of Capricor's cell-based therapeutic portfolio. From 2006 – 2012, Dr. Davies was Vice President, Product Development at Geron Corporation, a publicly traded biotechnology company with oncology and regenerative medicine programs. His team was responsible for multiple aspects of Geron's cell therapy portfolio development, including process and analytical development, device engineering, CMC regulatory interactions and manufacturing. During his tenure, his team supported multiple clinical trials and the first ever successful IND application for a human embryonic stem cell therapeutic. From 2005 to 2006, Dr. Davies was with Serologicals Corp. (now a division of EMD Millipore), a publicly traded diversified biological supply company, where he was responsible for global new product and process development. From 2004 to 2005, Dr. Davies was with Velico Medical, Inc. (formerly ZymeQuest, Inc.), a privately held transfusion medicine company, where he built manufacturing operations for all of the company's pre-commercial activities. Prior to Velico Medical, Dr. Davies worked at Onyx Pharmaceuticals, Inc., a publicly traded biopharmaceutical company, where he held positions of increasing responsibility while working on sorafenib, now co-marketed with Bayer as Nexavar®, a drug used in the treatment of multiple diseases with total worldwide sales in 2012 exceeding $1 billion. Dr. Davies received an MA in Biochemistry from the University of Cambridge and a Ph.D. from the University of Birmingham. He conducted postdoctoral research at the Institute of Virology at Oxford and the University of California, San Francisco. In January 2014, Dr. Davies resigned from his position as Chief Technology Officer of Capricor.

Rachel Smith, Ph.D. Dr. Smith is currently serving as our Vice President of Research and Development. Dr. Smith joined Capricor in 2008 and is a co-inventor of the CardiosphereTM technology that forms the core of Capricor's product portfolio. She also published the seminal proof-of-concept paper demonstrating the clinical utility of the Cardiosphere-derived stem cells in models of heart disease. Her research expertise encompasses the areas of stem cell biology, cardiac physiology, electrophysiology, as well as cell and tissue engineering. In 2012, Dr. Smith was appointed Vice President of Research and Development of Capricor and is responsible for developing the company's clinical trial protocols and managing its regulatory and research partner relationships. Dr. Smith obtained her Ph.D. in Biomedical Engineering from Johns Hopkins University under the advisement of Dr. Eduardo Marbán and with the support of a Whitaker Foundation Graduate Fellowship and a National Science Foundation Graduate Fellowship. She

received her undergraduate degree in Biomedical Engineering, Magna Cum Laude, from Tulane University.

Frank Litvack, M.D., FACC. Dr. Litvack is currently serving as our Executive Chairman and as a member of our Compensation Committee. Dr. Litvack is a native of Canada. He completed medical school and residency at McGill University in Montreal and a Cardiovascular Fellowship at Cedars Sinai Medical Center in Los Angeles, where he subsequently became co-director of the Cardiovascular Intervention Center and Professor of Medicine at UCLA. There he led a prominent clinical and research program known for its excellence in innovation, care and leadership in Translational Medicine. Dr. Litvack was Board certified in Internal Medicine, Cardiovascular Diseases and Interventional Cardiology. He has published more than one hundred research articles and chapters and is the recipient of several awards, including an American Heart Association Young Investigator Award, the Leon Goldman Medical Excellence Award for contributions to the field of biomedical optics and the United States Space Technology and Space Foundation Hall of Fame for pioneering work with the excimer laser. Dr. Litvack left full time practice and academics in 2000 to concentrate on entrepreneurial activities. Dr. Litvack has founded and operated several healthcare ventures, both as chairman and/or chief executive officer, including Progressive Angioplasty Systems Inc., a medical device company that was acquired by United States Surgical Corp. in 1998; Savacor, Inc., a medical device company that was acquired by St. Jude Medical in 2005; Conor Medsystems, Inc., a publicly traded medical device company that was acquired by Johnson & Johnson for $1.4 billion in 2007; and Entourage Medical Technologies Inc., a medical device company currently in development. He presently sits on the boards of several early stage healthcare companies and was a former director of publicly traded Nile Therapeutics, Inc. from 2009-2012. Dr. Litvack joined the Capricor Board as Executive Chairman in 2012. Dr. Litvack is currently a General Partner in Pura Vida Investment, LLC, a healthcare hedge fund and is serving as a Director on the Board of Cardiovascular Research Foundation, a non-profit research and education entity.

Joshua A. Kazam. Mr. Kazam served as Nile's non-employee President and Chief Executive Officer from June 2009 through August 2012, and has served as a director of the Company since inception in August 2005. In September 2004, Mr. Kazam co-founded Two River Group Holdings, LLC ("Two River"), and currently serves as Vice President and Director of Two River's managing member, Two River Group Management, LLC. Mr. Kazam also serves as an officer of the managing member of Two River Consulting, LLC, an organization that provides management, consulting and operational services for development stage biotechnology companies. Mr. Kazam also serves as an Officer and Director of Riverbank Capital Securities, Inc. From 1999 to 2004, Mr. Kazam was a Managing Director of Paramount BioCapital, Inc. where he was responsible for ongoing operations of venture investments, and as the Director of Investment for the Orion Biomedical Fund, LP. Mr. Kazam also co-founded and served as a director of Arno Therapeutics, Inc., a publicly-held, New Jersey-based biopharmaceutical company focused on the treatment of cancer patients, from its inception in August 2005 until September 2010. Mr. Kazam currently serves as a director of Kirax Corporation (formerly Tigris Pharmaceuticals, Inc.) and Kite Pharma, Inc., both privately-held biotechnology companies, and Velcera, Inc., a privately-held specialty pharmaceutical company. Mr. Kazam is a graduate of the Wharton School of the University of Pennsylvania.

Gregory W. Schafer. Mr. Schafer has served as a director of the Company since January 2008, and also serves as Chairman of the Audit Committee and as a member of the Nominating and Corporate Governance Committee. Mr. Schafer has served as Chief Financial Officer Jennerex, a biotherapeutics company focused in oncology, since June 2010. From April 2009 to June 2010, Mr. Schafer served as an independent consultant to private and public biotechnology companies. From April 2006 to January 2009, Mr. Schafer served as the Vice President and Chief Financial Officer of Onyx Pharmaceuticals, Inc., a publicly-held, California- based biopharmaceutical company dedicated to developing innovative therapies that target the molecular mechanisms that cause cancer. Prior to Onyx, from 2004 to 2006, Mr. Schafer served as a consultant to several private and public biotechnology companies. From 1997 to 2004, Mr. Schafer held various executive positions at Cerus Corporation, a public biotechnology company, including Vice President and Chief Financial Officer. Prior to joining Cerus, Mr. Schafer worked as a management consultant for Deloitte & Touche LLP. Mr. Schafer holds an M.B.A from the Anderson Graduate School of Management at UCLA and a BSE in Mechanical Engineering from the University of Pennsylvania.

Earl M. (Duke) Collier, Jr. Mr. Collier joined the Capricor Board of Directors in 2011 and is a member of the Nominating and Corporate Governance Committee. He is currently the chief executive officer of 480 Biomedical, a medical device company developing products used in the treatment of peripheral artery disease, and serves as a Senior Advisor to Polaris Venture Partners, a venture capital firm focused on information technology and life sciences, and as executive chairman of Arsenal Medical, Inc., a medical device company. Mr. Collier was formerly Executive Vice President at Genzyme Corporation, a biotechnology company acquired by Sanofi for $20.1 billion in 2011. During his tenure at Genzyme, Mr. Collier was responsible for building the biosurgery business and overseeing the company's efforts in multiple sclerosis and other immune disorders. He has also led some of Genzyme's significant acquisitions and the formation of MG Biotherapeutics, Genzyme's joint venture with Medtronic Inc., which is focused on cardiac cell therapy. Mr. Collier also served as President of Vitas Healthcare, a hospice provider, as a partner at the Washington, DC-based law firm of Hogan and Hartson and as Deputy Administrator of the Health Care Finance Administration (now CMS) in the U.S. Department of Health & Human Services. Mr. Collier sits on the boards of several corporations including Arsenal Medical, Inc. and Pervasis Therapeutics, a biotechnology company. He is also chairman of the board for the Newton-Wellesley Hospital. From 2006 to 2009, Mr. Collier served as a director of publicly traded Decode Genetics Inc. (DGI Resolution, Inc.), a biopharmaceutical company. Mr. Collier earned a Bachelor of Arts degree at Yale University and received a law degree from the University of Virginia Law School.

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David B. Musket. Mr. Musket joined the Capricor Board of Directors in 2012 and is a member of the Audit Committee and the Compensation Committee. Mr. Musket has vast experience in strategic finance and has been following developments in the pharmaceutical and medical device industries for over 30 years. Mr. Musket began his investment career as an equities research analyst at Goldman Sachs & Co. following the pharmaceutical industry. In 1991 he founded Musket Research Associates, a venture banking firm focused exclusively on emerging healthcare companies. In 1996 he co-founded ProMed Management, a healthcare-focused investment partnership. He is still actively involved with both of these entities. He has served on the boards of several private and public companies throughout his career, and is currently on the board of privately held TherOx, Inc., a medical device company. From 1999 to 2007, Mr. Musket served on the board of directors of publicly traded Conor MedSystems, Inc., a medical device company sold to Johnson & Johnson in 2007 for $1.4 billion. Mr. Musket holds a Bachelor of Arts degree in Biology and Psychology from Boston College.

Louis Manzo. Mr. Manzo was one of the initial investors in Capricor and joined the Capricor Board of Directors in 2006. Mr. Manzo is also a member of the Compensation Committee and the Nominating and Corporate Governance Committee. Mr. Manzo has been a prominent Baltimore entrepreneur for over three decades and has extensive experience in the area of finance. Mr. Manzo received his BS degree from the University of Notre Dame and his MBA from Harvard Business School. He served in the armed forces as an officer in the United States Navy. After completing his MBA at Harvard, Mr. Manzo joined, and in a few years became General Partner of, Baker, Watts & Co., a NYSE Member Firm. His experience there included being Director of Equity Research and later, the Head of Corporate Finance. During the 1980's, Mr. Manzo started his own private investment firm, LVM Venture Partners. Beginning in 1989, Mr. Manzo became part of the founders group which helped a Johns Hopkins cardiologist fund his launching of a research center for preventive cardiology. Mr. Manzo remained as an advisor during the center's formative years. His continued interest in preventive research included a major investment to research the use of protein modeling for early disease detection. Since 2002, he has been following and supporting research into the use of adult stem cells in the repair of spinal cord and heart damage. The list of private company boards, senior advisory roles, and charities that Mr. Manzo has been involved with over the years are numerous and varied, including: the Johns Hopkins Preventive Cardiology Center, a hospital center; Greater Baltimore Medical Center, a hospital; Goodwill Industries of Maryland, a non-profit organization; E.I.L Instruments, Inc., an instrument company; and Notre Dame University of Maryland, a private university.

Louis J. Grasmick. Mr. Grasmick was one of the initial investors in Capricor and joined the Capricor Board of Directors in 2006. Mr. Grasmick is a prominent Baltimore philanthropist and entrepreneur with over fifty years of executive experience. He is the chief executive officer of the Louis J. Grasmick Lumber Company, a supplier of industrial lumber, which he founded after playing professional baseball for seven years. His many accomplishments and positions include being director of the Harbor Bank of Maryland's Executive Committee, as well as past president of Signal 13, a non-profit organization. Mr. Grasmick currently sits on the board of directors for The Johns Hopkins Hospital Broccoli Center. Voted "Man of the Year" by both the Baltimore Junior Association of Commerce and the Variety Club, he was also honored by the Children's Guild of Maryland in 2009 with their award for "Making the Impossible Possible."

George W. Dunbar, Jr. Mr. Dunbar joined the Capricor Board of Directors in 2012 and is a member of the Audit Committee. Mr. Dunbar is currently President and Chief Executive Officer of ISTO Technologies. Inc., a

privately-held biotechnology company. Mr. Dunbar has extensive healthcare and life sciences operating experience, and has served as a former Director or CEO with a number of private and public life science companies. Prior to joining ISTO, commencing in 2010, Mr. Dunbar served as a Venture Partner with Arboretum Ventures, a leading healthcare venture capital firm. He has served as a board member for the following portfolio companies: IntelliCyt, a provider of high throughput screening and analytics for aiding drug discovery, KFx Medical, a medical device company (as chair), and CerviLenz, Inc., a medical device company (as executive chair). He was a past director and executive chair of Accuri Cytometers (now Becton Dickinson & Co.), a cell analysis and flow cytometer company. Mr. Dunbar has also served as the chief executive officer and/or a director of several publicly traded companies, all of which are involved in the healthcare industry. Previously, he served as chairman and chief executive officer of publicly traded Aastrom Biosciences, a biotechnology company developing therapies for severe, chronic cardiovascular diseases; as a director and chief executive officer of publicly traded Stem Cells Inc. (formerly Cyto Therapeutics), a company engaged in the development of stem cell therapies; as a director and chief executive officer of publicly traded Metra Biosystems, a bio-marker discovery company; as a director of publicly traded DepoTech, a biotechnology company; as a director of publicly traded LJL Biosystems, a provider of drug discovery automated systems to the life sciences industry; and as a director of publicly traded Quidel Corporation, a company which develops and markets diagnostic testing solutions. Mr. Dunbar has also worked with several venture capital groups and served as an advisor, director, or chief executive officer to several private life sciences companies, including Quantum Dot, a Versant Ventures/MPM Capital company; Targesome, an Alloy Ventures/CHL Medical Partners company; and Epic Therapeutics, an MPM Capital/Proquest Investments company. He has also held senior leadership positions with Ares-Serono, now Merck- Serono, and Amersham International, now GE Healthcare. Mr. Dunbar attended Auburn University where he graduated with a BS in Electrical Engineering and later received his MBA. He currently serves on the Harbert College of Business MBA Advisory Board and is an advisor to Vanderbilt University’s Center for Technology Transfer and Commercialization.

Experience, Qualifications, Attributes and Skills of Directors

We look to our directors to lead us through our continued growth as an early-stage public biopharmaceutical company. Our directors bring their leadership experience from a variety of life science and other companies and professional backgrounds which we require to continue to grow and bring value to our stockholders. Dr. Frank Litvack, our Executive Chairman, has a wealth of business building experience and medical expertise that ensures that our activities are anchored in sound scientific research and solid business planning and practices. As an accomplished veteran of the healthcare industry who has orchestrated the founding, development and sale of several medical technology companies, we believe that Dr. Litvack provides invaluable knowledge and leadership to the company. Dr. Linda Marbán brings a wealth of knowledge in research and development especially for the treatment of cardiovascular disease. She has over a decade of experience in early stage life sciences companies, as well as business development expertise. Mr. Kazam and Mr. Musket have venture capital or investment banking backgrounds and offer expertise in financing and growing small biopharmaceutical companies. Each of Mr. Collier, Dunbar, Kazam, Manzo, Grasmick, Musket, and Mr. Schafer have significant experience with early stage private and public companies and bring depth of knowledge in building stockholder value, growing a company from inception and navigating significant corporate transactions and the public company process. Mr. Dunbar and Mr. Collier have extensive experience in the pharmaceutical industry, allowing them to contribute their significant operational experience. As a result of his experience in the role of chief financial officer of public companies, Mr. Schafer also brings extensive finance, accounting and risk management knowledge to us.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company’s directors and officers and persons who own more than ten percent of a registered class of the Company’s equity securities to file reports of ownership and reports of changes in the ownership with the SEC. Such persons are required by SEC regulations to furnish the Company with copies of all Section 16(a) forms they file. Based solely on its review of the copies of the forms submitted to it during the last fiscal year, the Company believes that, during the last fiscal year, all such reports were timely filed, except for a Form 4 filed by Joshua A. Kazam, a director, reporting the cancellation of warrants in exchange for common stock of the Company, effected on each of November 13, 2013 and November 20, 2013; a Form 3 filed by Cedars-Sinai Medical Center, a holder of more than 10% of the outstanding shares of common stock of the Company; and a Form 3 filed by MD BTI, LLC, a holder of more than 10% of the outstanding shares of common stock of the Company, all of which were inadvertently filed late.

Code of Business Conduct and Ethics

The Board of Directors has adopted a Code of Business Conduct and Ethics (the “Code”) that applies to all directors, officers, employees, consultants, contractors and agents, wherever they are located and whether they work for us on a full- or part-time basis. The Code was designed to help such directors, employees and other agents to resolve ethical

issues encountered in the business environment. The Code covers topics such as conflicts of interest, compliance with laws, confidentiality of Company information, encouraging the reporting of any violations of the Code, fair dealing and protection and use of Company assets.

A copy of the Code, as adopted by the Board of Directors, is available at the Corporate Governance page of our website at *www.capricor.com.* Please note that information contained on our website is not incorporated by reference in, or considered to be a part of, this Annual Report on Form 10-K. We may post amendments to or waivers of the provisions of the Code, if any, made with respect to any directors and employees on that website.

Audit Committee

The current members of our Audit Committee are Mr. Gregory Schafer (Chair), Mr. George Dunbar and Mr. David Musket. Our Board of Directors has determined that Mr. Schafer qualifies as an “audit committee financial expert,” as defined by the applicable rules of the SEC. Although our shares are not listed on the NASDAQ Stock Market, the Board has determined that all members are “independent” within the meaning of the applicable listing standard of the NASDAQ Stock Market.

Compensation Committee

The current members of our Compensation Committee are Dr. Frank Litvack, Mr. Louis Manzo and Mr. David Musket. Although our shares are not listed on the NASDAQ Stock Market, the Board has determined that all members are “independent” within the meaning of the applicable listing standard of the NASDAQ Stock Market.

Nominating and Corporate Governance Committee

The current members of our Nominating and Corporate Governance Committee are Mr. Earl Collier, Mr. Gregory Schafer and Mr. Louis Manzo. Although our shares are not listed on the NASDAQ Stock Market, the Board has determined that all members are “independent” within the meaning of the applicable listing standard of the NASDAQ Stock Market.

ITEM 11. EXECUTIVE COMPENSATION

The following summary compensation table reflects cash and non-cash compensation for the 2013 and 2012 fiscal years awarded to or earned by (i) each individual serving as our principal executive officer during the fiscal year ended December 31, 2013; and (ii) the two most highly-compensated individuals, other than our principal executive officer, that served as an executive officer at the end of the fiscal year ended December 31, 2013 and who received in excess of $100,000 in total compensation during such fiscal year. We refer to these individuals as our "named executive officers".

Summary Compensation Table

Name and Principal Position	Year	Salary ($)	Bonus ($)	Option Awards($)(1)	All Other Compensation ($)	Total ($)
Linda Marbán, Ph.D.	2012	$ 190,313	–	–	–	$190,313
Chief Executive Officer	2013	$ 232,344	–	$ 108,000	–	$340,344
Karen Krasney, J.D.	2012	$ 130,000	–	$ 54,747	$ 1,000(2)	$185,747
Executive Vice President & General Counsel	2013	$ 189,390	–	–	$ 1,000(2)	$190,390
Anthony Davies, Ph.D.	2012	$ –	–	–	–	–
Chief Technology Officer	2013	$ 213,083	–	$ 49,272	$ 40,554(3)	$302,909
Darlene Horton, M.D.	2012	$ 81,439	–	–	–	$81,439
Former Chief Executive Officer	2013	$ 1,000	239,345(4)	–	–	$240,345

(1) Amounts reflect the grant date fair value of awards granted under the Capricor, Inc. 2012 Restated Equity Incentive Plan, computed pursuant to Financial Accounting Standards Board's Accounting Standards Codification 718 *"Compensation – Stock Compensation"*. Assumptions used in the calculation of these amounts are included in Note 4 of the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K. See the *"Outstanding Equity Awards at Fiscal Year-End"* table, below, for information regarding all option awards outstanding as of December 31, 2013.

(2) Represents premiums contributed by Capricor for the employee's Health Flexible Spending account.

(3) Represents all amounts reimbursed to Mr. Davies during his employment relationship with Capricor for commuting expenses and a housing allowance.

(4) Represents the change of control bonus paid to Ms. Horton as part of the Employment Agreement between her and the Company dated August 3, 2012, as amended from time to time. As part of the change of control bonus and in connection with the merger between Nile and Capricor, the Company issued 77,208 shares of the Company's common stock on a post-Reverse Stock Split basis following completion of the merger between Nile and Capricor. The value of the compensation is derived using the closing price of the Company's common stock, as reported on the OTCQB, on November 27, 2013, the date seven days after the separation agreement between the Company and Ms. Horton was deemed effective. The shares were issued pursuant to the Company's Amended and Restated 2005 Stock Option Plan.

Employment Agreements and Post-Termination Benefits

Linda Marbán, Ph.D. — President and Chief Executive Officer

Dr. Linda Marbán's employment as our Chief Executive Officer is subject to the terms of that certain employment agreement dated September 1, 2010, by and between Capricor and Dr. Marbán. In accordance with the agreement, Dr. Marbán is required to devote three-fourths of her time to the position of Chief Executive Officer and is entitled to an annual salary of $150,000, which salary was increased to $232,344 for the period ended December 31, 2013. Dr. Marbán's employment is at-will, and she has also signed an employee invention assignment, non-disclosure, non-solicitation, and non-competition agreement. In addition, in 2010, Capricor issued to Dr. Marbán a 10-year stock option to purchase 414,971 shares of our common stock at an exercise price of $0.37 per share calculated after giving effect to the merger between Nile and Capricor. The vesting schedule for that grant is as follows: 25% of the shares of common stock subject to the option vested immediately; 20% of the remaining shares of common stock subject to the option have vested or will vest on each of September 1, 2011, September 1, 2012, September 1, 2013, September 1, 2014 and September 1, 2015. In 2013, Dr. Marbán was granted a second 10-year stock option to purchase 414,971 shares of our common stock at an exercise price of $0.30 per share calculated after giving effect to the merger between Nile and Capricor and which vests over a four-year period at the rate of 25% per year commencing June 1, 2014. Notwithstanding the vesting schedule, early exercise of options is permissible pursuant to her option agreement. The first grant was awarded pursuant to Capricor's 2006 Stock Option Plan and the second grant was awarded pursuant to Capricor's 2012 Restated Equity Incentive Plan. In the event the employment agreement is terminated during the term other than for cause, death or disability, she would be entitled to receive a severance payment equal to three months' salary then in effect. In addition, if upon the hiring of a new Chief Executive Officer, Capricor does not employ Dr. Marbán at a level of at least a vice-president, she would be entitled to receive a severance payment equal to three months' salary and the vesting of her then unvested options would be accelerated by six months.

Karen Krasney, J.D. — Executive Vice President, General Counsel

Karen Krasney's employment as our Executive Vice President and General Counsel is pursuant to an oral agreement which commenced March 1, 2012. Ms. Krasney's current base salary is $250,000 per year. In addition, Ms. Krasney has signed an at-will employment, confidential information, and invention assignment agreement, and an arbitration agreement. Additionally, in 2012, Ms. Krasney was granted a 10-year option to purchase 189,320 shares of our common stock at an exercise price of $0.37 per share calculated after giving effect to the merger between Nile and Capricor. 25% of the option shares vested November 1, 2012 and the remainder is vesting at the rate of 1/36 per month on the first day of each month commencing December 1, 2012. Notwithstanding the vesting schedule, early exercise of options is permissible pursuant to her option agreement. The grant was awarded pursuant to Capricor's 2012 Restated Equity Incentive Plan.

Anthony Davies, Ph.D. — Chief Technology Officer

Anthony Davies' employment as our Chief Technology Officer was subject to the terms of that certain employment agreement dated February 18, 2013, by and between Capricor and Mr. Davies. In accordance with the agreement, Dr. Davies was required to devote his full time to the position of Chief Technology Officer and was entitled to an annual salary of $260,000. In addition, Dr. Davies was to be considered for a discretionary annual bonus in an amount up to 20% of his base salary, commuting expenses during the period in which he was to relocate to Los Angeles, and a housing allowance of $4,000 per month for nine months effective after his relocation to Los Angeles. In addition, Dr. Davies signed an at-will employment, confidential information, and invention assignment agreement, and an arbitration agreement. In 2013, Capricor issued Dr. Davies a 10-year stock option to purchase 189,320 shares of our common stock at an exercise price of $0.30 per share calculated after giving effect to the merger between Nile and Capricor, which option was to vest at the rate of 25% per year commencing March 1, 2014. The grant was awarded pursuant to Capricor's 2012 Restated Equity Incentive Plan. Notwithstanding the vesting schedule, early exercise of options was permissible pursuant to his option agreement. Dr. Davies resigned from his position as Chief Technology Officer of Capricor in January 2014 and his contract terminated. No portion of his option shares was deemed vested.

Darlene Horton, M.D. — Former Chief Executive Officer

On March 21, 2013, the Company entered into a letter agreement with Darlene Horton, M.D., its President and Chief Executive Officer, which letter agreement amended certain compensation terms under her existing letter agreement dated August 3, 2012, as previously amended on November 5, 2012.

Dr. Horton's existing letter agreement provided that if, prior to the date of a "compensation adjustment event," the Company completed a Change of Control Transaction (as defined in the agreement) and Dr. Horton's employment was terminated by the Company (or any successor entity) without cause during the period beginning on the effective date of the Change of Control Transaction and ending on the six-month anniversary of such effective date, then she would have been entitled to receive a cash payment equal to 5% of the applicable Change of Control Proceeds (as defined in the agreement). For purposes of the agreement, the term "compensation adjustment event" means the date on which the Company secures sufficient capital, whether by a financing or strategic transaction (or any combination thereof) or another means, in order to enable the Company to initiate and fund to completion a Phase II clinical trial of the Company's cenderitide product candidate.

The March 21, 2013 letter agreement amended the payment terms described in the preceding paragraph and provided that if, prior to December 31, 2013, the Company completed a Change of Control Transaction in which either (i) the outstanding shares of the Company's common stock were exchanged for securities of another corporation, or (ii) the Company issued shares of its common stock, with no securities or other consideration paid or payable to holders of the Company's common stock (e.g., a merger transaction in which the Company acquired another corporation in exchange for shares of the Company's common stock), then Dr. Horton would be entitled to receive, immediately prior to the effective time of the Change of Control Transaction, a number of shares of the Company's common stock equal to 5% of the shares of the Company's common stock then outstanding on a fully-diluted basis.

The agreement further provided that if, prior to December 31, 2013, the Company completed a Change of Control Transaction other than as described in the preceding paragraph, then Dr. Horton would be entitled to receive a cash payment, on the date of such Change of Control Transaction, equal to 5% of the applicable Change of Control Proceeds (as defined in the agreement).

Upon the consummation of the merger between Nile and Capricor, Dr. Horton executed a Separation Agreement and Release with the Company, in consideration for which she received the change of control bonus due pursuant to the terms of the March 21, 2013 letter agreement. As part of the change of control bonus and in connection with the Merger, the Company issued 77,208 shares of the Company's common stock on a post-Reverse Stock Split basis following completion of the merger. The shares were issued pursuant to the Company's Amended and Restated 2005 Stock Option Plan.

The foregoing summary of the March 21, 2013 letter agreement is qualified in its entirety by reference to the complete letter agreement, a copy of which is attached as Exhibit 10.3 to the Company's Current Report on Form 8-K, filed with the SEC on March 22, 2013. Additionally, the foregoing summary of the Separation Agreement and Release is qualified in its entirety by reference to the complete agreement, a copy of which is attached as Exhibit 10.10 to this Annual Report on Form 10-K.

Outstanding Equity Awards at Fiscal Year-End

The following table sets forth information concerning unexercised stock options held by the named executive officers at December 31, 2013:

Name	Number of Securities Underlying Unexercised Options Exercisable	Number of Securities Underlying Unexercised Options Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options	Option Exercise Price ($)	Option Expiration Date	
Linda Marbán, Ph.D.	290,480	124,491	—	0.37	09/01/2020	(1)
	—	414,971	—	0.30	05/14/2023	(2)(6)
Karen Krasney, J.D.	118,325	70,995	—	0.37	11/13/2022	(3)(6)
Anthony Davies, Ph.D.	—	189,320	—	0.30	02/22/2023	(4)(6)
Darlene Horton, M.D.	—	—	—	—	—	(5)

(1) Vesting schedule is as follows: 25% of the shares of common stock subject to this option vested immediately. 20% of the remaining shares of common stock subject to this option have vested or will vest on each of September 1, 2011, September 1, 2012, September 1, 2013, September 1, 2014 and September 1, 2015.

(2) Vesting schedule is as follows: The shares of common stock subject to this option vest 25% per year over 4 years commencing June 1, 2014.

(3) Vesting schedule is as follows: 25% of the shares of common stock subject to this option vested immediately, with the remainder vesting over 36 months commencing December 1, 2012.

(4) Vesting schedule is as follows: This shares of common stock subject to this option vest over 4 years with the first 25% of the shares of common stock subject to the option vesting on February 22, 2014. Dr. Davies resigned in January 2014, and no further options vested under the terms of his award.

(5) Darlene Horton was the former Chief Executive Officer of Nile Therapeutics, Inc. prior to the merger between Capricor and Bovet Merger Corp.

(6) The options issued under the 2012 Restated Equity Incentive Plan are subject to early exercise. If the option holder elects to take advantage of the early exercise feature and purchase shares prior to the vesting of such shares, the shares will be deemed restricted stock and will be subject to a repurchase option in favor of the Company if the option holder’s service to the Company terminates prior to vesting.

Compensation of Directors

The following table sets forth the compensation received by our directors for their service in 2013. Dr. Marbán is not listed below since she is an employee of Capricor Therapeutics and receives no additional compensation for serving on our Board of Directors or its committees. Additionally, Ms. Horton, the Company's former Chief Executive Officer, is not listed in the below table as she received no compensation for her service on the Board during the fiscal year ended December 31, 2013.

Name	Fees Earned or Paid in Cash	Option Awards (1)	Total
Frank Litvack, M.D. (2)	$ 120,000	$ 88,479	$208,479
George Dunbar	—	3,513	3,513
Louis Manzo	—	3,513	3,513
Louis Grasmick	—	3,445	3,445
Earl Collier	—	3,513	3,513
David Musket	—	3,513	3,513
Joshua Kazam (3)	—	—	—
Gregory Schafer (4)	—	—	—
Arie S. Belldegrun, M.D. (5)	—	—	—
Pedro Granadillo (5)	—	—	—
Peter M. Kash, Ed.D. (5)	—	—	—
Paul A. Mieyal, Ph.D. (5)	—	—	—

(1) Amounts reflect the grant date fair value of awards granted under the 2012 Restated Equity Incentive Plan and the 2012 Non-Employee Director Stock Option Plan, computed pursuant to Financial Accounting Standards Board's Accounting Standards Codification 718 "Compensation – Stock Compensation". Assumptions used in the calculation of these amounts are included in Note 4 of the Notes to the Consolidated Financial Statements included in this Annual Report on Form 10-K.

(2) Dr. Litvack served on the Board of Directors of Nile Therapeutics, Inc. until October 28, 2012 and is currently the Executive Chairman of the Board of Directors of Capricor Therapeutics, Inc.

(3) Mr. Kazam was previously a member of the Nile Therapeutics, Inc. Board, and was not compensated for his services in 2013. Upon his appointment to the Capricor Therapeutics Board, he forfeited all prior options held. Pursuant to the terms of Nile's services agreement with Two River Consulting, LLC, or TRC, Mr. Kazam served as Nile's non-employee President and Chief Executive Officer from June 2009 until Dr. Horton's appointment as President and Chief Executive Officer on August 6, 2012. Mr. Kazam received no direct compensation for his services as President and Chief Executive Officer, though, as a principal owner of TRC, he indirectly received a portion of the monthly cash fees paid to TRC under the services agreement. The TRC agreement was terminated at

the close of the merger between Nile and Capricor. Amounts reflected in the table above represent compensation received solely for Mr. Kazam's services as a director in accordance with the standard compensation applicable to our other non-employee directors.

(4) Mr. Schafer was previously a member of the Nile Therapeutics, Inc. Board, and was not compensated for his services in 2013. Upon his appointment to the Capricor Therapeutics Board, he forfeited all prior options held.

(5) These directors resigned from the Board effective upon completion of the merger between Nile and Capricor on November 20, 2013.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information known to us regarding the beneficial ownership of our common stock as of March 26, 2014 by:

- each of our directors,
- each named executive officer as defined and named in the Summary Compensation Table appearing herein,
- all of our directors and executive officers as a group, and,
- each person known by us to beneficially own more than five percent of our common stock (based on information supplied in Schedules 13D and 13G filed with the Securities and Exchange Commission).

Except as indicated by footnote, and subject to applicable community property laws, each person identified in the table possesses sole voting and investment power with respect to all capital stock shown to be held by that person. The address of each named executive officer and director, unless indicated otherwise, is c/o Capricor Therapeutics, Inc., 8840 Wilshire Blvd., 2nd Floor, Beverly Hills, CA 90211

Name of Beneficial Owner	Shares of Common Stock Beneficially Owned (1)	Percentage of Common Stock Beneficially Owned (1)
Named Executive Officers and Directors:		
Frank Litvack, M.D. (2)	1,316,145	10.1
George Dunbar (3)	87,784	*
Louis Manzo (4)	954,172	8.0
Louis Grasmick (5)	1,213,529	10.1
Earl Collier (6)	126,415	1.1
David Musket (7)	87,784	*
Joshua Kazam (8)	50,184	*
Gregory Schafer (9)	2	*
Linda Marbán, Ph.D. (10)	549,837	4.6
Karen Krasney, J.D. (11)	118,325	1.0
Darlene Horton, M.D. (12)	77,208	*
Anthony Davies Ph. D. (13)	-	-
Directors and executive officers as a group (13 individuals)	4,578,351	31.7

5% Stockholders:		
Dr. Eduardo Marbán (14)		
c/o 8840 Wilshire Blvd., 2nd Floor		
Beverly Hills, CA 90211	3,164,154	27.1
MD BTI, LLC (15)		
2560 Lord Baltimore Drive		
Baltimore, MD 21244	1,934,939	16.6
Cedars-Sinai Medical Center (16)		
8700 Beverly Blvd.		
West Hollywood, CA 90048	1,324,086	11.3

* Represents less than 1%.

(1) Based on 11,690,859 shares of our common stock outstanding as of March 26, 2014. Beneficial ownership is determined in accordance with Rule 13d-3 under the Exchange Act, and includes any shares as to which the security or stockholder has sole or shared voting power or investment power, and also any shares which the security or stockholder has the right to acquire within 60 days of March 26, 2014, whether through the exercise or conversion of any stock option, convertible security, warrant or other right. The indication herein that shares are beneficially owned is not an admission on the part of the security or stockholder that he, she or it is a direct or indirect beneficial owner of those shares.

(2) Includes 1,316,145 shares issuable upon the exercise of stock options that are exercisable or will become exercisable within 60 days of March 26, 2014.

(3) Includes 87,784 shares issuable upon the exercise of stock options that are exercisable or will become exercisable within 60 days of March 26, 2014.

(4) Includes (i) 638,155 shares held by Coniston Corporation, an entity of which Mr. Manzo was the sole owner. In December 2012, Mr. Manzo transferred 99% of the non-voting shares of Coniston Corporation to several irrevocable trusts established for the benefit of his children. Mr. Manzo retained the remaining 1% of the shares of Coniston and retains all voting power with respect to Coniston shares; and (ii) 316,017 shares issuable upon the exercise of options held individually by Mr. Manzo that are exercisable or will become exercisable within 60 days of March 26, 2014.

(5) Includes (i) 897,512 shares held by Nancelou Inc., an entity of which 50% is owned by Louis Grasmick and Nancy Grasmick, husband and wife, as tenants by the entirety, and the other 50% of which is owned by Grant Grasmick, the son of Louis Grasmick and Nancy Grasmick, and, as a result, Louis Grasmick, Nancy Grasmick and Grant Grasmick may be deemed to have shared voting and dispositive power with respect to the shares beneficially owned by Nancelou, Inc.; and (ii) 316,017 shares issuable upon the exercise of options held individually by Mr. Grasmick that are exercisable or will become exercisable within 60 days of March 26, 2014.

(6) Includes 126,415 shares issuable upon the exercise of stock options which are exercisable or will become exercisable within 60 days of March 26, 2014.

(7) Includes 87,784 shares issuable upon the exercise of stock options which are exercisable or will become exercisable within 60 days of March 26, 2014.

(8) Includes (i) 30,988 shares held by Mr. Kazam; (ii) 300 shares issuable upon the exercise of outstanding warrants held by Mr. Kazam; (iii) 12,276 shares held by the Kazam Family Trust, of which Mr. Kazam’s spouse is the trustee and his children are beneficiaries, and as to which Mr. Kazam disclaims beneficial ownership except to the extent of any pecuniary interest therein; (iv) 3,310 shares held by Mr. Kazam’s spouse as custodian for the benefit of their minor children, to which Mr. Kazam disclaims beneficial ownership except to the extent of his pecuniary interest therein; and (v) 3,310 shares held by the Kash Family Foundation, of which Mr. Kazam is trustee but as to which he has no pecuniary interest.

(9) Includes 2 shares held by Mr. Schafer.

(10) Includes (i) 259,357 shares held by Dr. Linda Marbán, and (ii) 290,480 shares issuable upon the exercise of options held by Dr. Marbán which are exercisable or will become exercisable within 60 days of March 26, 2014. Dr. Linda Marbán is our Chief Executive Officer.

(11) Includes 118,325 shares issuable upon the exercise of stock options which are exercisable or will become exercisable within 60 days of March 26, 2014.

(12) Represents the change of control bonus paid to Ms. Horton as part of the Employment Agreement between her and the Company dated August 3, 2012, as amended from time to time. As part of the change of control bonus and in connection with the merger between Nile and Capricor, the Company issued to Ms. Horton 77,208 shares of the Company's common stock on a post-Reverse Stock Split basis following completion of the merger between Nile and Capricor. The shares were issued pursuant to the Company's Amended and Restated 2005 Stock Option Plan.

(13) All of Mr. Davies' outstanding options expired unexercised upon the termination of his employment with the Company in January 2014.

(14) Includes 3,164,154 shares held by Dr. Eduardo Marbán.

(15) Includes (i) 1,556,141 shares held by MD BTI, LLC, which has the sole power to vote or direct the vote of, and sole power to dispose or direct the disposition of, all 1,556,141 shares held by it, (ii) 324,196 shares held by MD BTI, Inc.; and (iii) 54,602 shares held individually by Edward A. St. John. Edward St. John, LLC, a Delaware limited liability company, is the company manager (the "Company Manager") of MD BTI, LLC. Edward A. St. John, an individual, is the general manager of Company Manager. As the company manager of MD BTI, LLC, Company Manager is deemed to be the beneficial owner of the shares held by MD BTI, LLC and is therefore deemed to have shared voting and dispositive power over the 1,556,141 shares held by MD BTI, LLC. Mr. St. John is the sole member and general manager of Company Manager and is therefore deemed to be the beneficial owner of the shares held by Company Manager. Additionally, Mr. St. John is the president of MD BTI, Inc. and is therefore deemed to be the beneficial owner of the shares held by MD BTI, Inc. As a result of the foregoing, Mr. St. John has the sole power to vote or direct the vote of 54,602 Shares; has the shared power to vote or direct the vote of 1,880,337 Shares; has the sole power to dispose or direct the disposition of 54,602 Shares; and has the shared power to dispose or direct the disposition of 1,880,337 Shares.

(16) Includes 1,324,086 shares held by Cedars-Sinai Medical Center.

Securities Authorized for Issuance Under Equity Compensation Plans

Capricor Therapeutics, Inc. has three equity-incentive plans that have been approved by stockholders: (i) the Amended and Restated 2005 Stock Option Plan (the former Nile plan); (ii) the 2006 Stock Option Plan; and (iii) the 2012 Restated Equity Incentive Plan. The Company also has maintains the 2012 Non-Employee Director Stock Option Plan, which has not been approved by stockholders. The following table sets forth certain information as of December 31, 2013 with respect to the Company's equity incentive plans:

	Number of Securities to be Issued Upon Exercise of Outstanding Options	**Weighted-Average Exercise Price of Outstanding Options**	**Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column)**
Plan category			
Equity compensation plans approved by security holders:			
The Amended and Restated 2005 Stock Option Plan	22,033	$ 34.15	21,272
The 2006 Stock Option Plan	737,607	$ 0.38	-
The 2012 Restated Equity Incentive Plan	1,491,612	$ 0.32	1,920,491
Equity compensation plans not approved by stockholders:			
2012 Non-employee Director Stock Option Plan	2,637,267	$ 0.37	60,044
Total	**4,888,519**	**$ 0.51**	**2,001,807**

ITEM 13. certain relationships and related transactions, and director independence

Certain Relationships and Related Transactions

Cedars-Sinai Medical Center

On July 27, 2010, Cedars-Sinai Medical Center ("CSMC") acquired 263,158 shares of Capricor, Inc.'s Series A-2 Convertible Preferred Stock and on April 20, 2012 acquired 375,000 shares of Capricor, Inc.'s A-3 Convertible Preferred Stock, which were exchanged for 1,324,086 shares of common stock of the Company after the effects of the merger between Nile and Capricor.

On January 4, 2010, Capricor entered into an Exclusive License Agreement with CSMC, (the CSMC License Agreement), for certain intellectual property rights. In 2013, the CSMC License Agreement was amended twice resulting in, among other things, a reduction in the percentage of sublicense fees which would have been payable to CSMC. Effective December 30, 2013, Capricor entered into an Amended and Restated Exclusive License Agreement with CSMC (the Amended CSMC License Agreement) pursuant to which, among other things, certain definitions were added or amended, the timing of certain obligations was revised and other obligations of the parties were clarified. The Amended CSMC License Agreement provides for the grant of an exclusive, world-wide, royalty-bearing license by CSMC to Capricor (with the right to sublicense) to conduct research using the patent rights and know-how and develop and commercialize products in the field using the patents rights and know-how. In addition, Capricor has the exclusive right to negotiate for an exclusive license to any future rights arising from work conducted by or under the direction of Dr. Eduardo Marbán on behalf of CSMC. In the event the parties fail to agree upon the terms of an exclusive license, Capricor shall have a non-exclusive license to such future rights, subject to royalty obligations. Pursuant to the CSMC License Agreement, CSMC was paid a license fee and Capricor was obligated to reimburse CSMC for certain fees and costs incurred in connection with the prosecution of certain patent rights. Additionally, Capricor was required to meet certain spending and development milestones. Pursuant to the Amended CSMC License Agreement, Capricor remains obligated to pay royalties on sales of royalty-bearing products as well as a percentage of the consideration received from any sublicenses or other grant of rights. In 2010, Capricor discontinued its research under some of the patents.

Capricor presently maintains its laboratory and research facilities in leased premises located at CSMC. Such premises are being leased on a month-to month basis and may be terminated upon 30 days' notice to Capricor. With the permission of CSMC, Capricor presently manufactures its cells in an accredited GMP facility which is owned by and located within CSMC. Capricor's intention is to manufacture cells at this facility for its Phase II trial.

Dr. Frank Litvack (Executive Chairman)

Since April, 2012, Dr. Frank Litvack has been serving as Capricor's Executive Chairman. In April 2012, Dr. Frank Litvack was given a director package when he agreed to serve as the Executive Chairman of Capricor, Inc. Pursuant to that Board package, Dr. Litvack was paid a consulting fee of $4,000 per month commencing upon his election to the Board. Such compensation increased to $10,000 per month upon Capricor, Inc.'s receipt of a CIRM award. Dr. Litvack was granted an option for a number of shares of Company common stock equal to ten percent (10%) of the outstanding shares of all Company stock on a fully diluted basis (the "Initial Option"), calculated as if all options and warrants granted or contemplated to be granted to Company employees, directors and other eligible participants had been granted and exercised as of the grant date of the Initial Option. 25% of the Initial Option vested on the first day of the month after his election to the Capricor, Inc. Board of Directors. The remainder was to vest at the rate of 1/36 per month over the following 36 month period. In connection with the merger between Nile and Capricor, Dr. Litvack's options were converted into options for the Company's common stock. He thus holds the following option grants for (i) 1,545,435 shares at $0.37 per share (ii) 140,270 at $0.37 per share (iii) 207,485 at $0.30 per share calculated after giving effect to the merger between Nile and Capricor.

Under Dr. Litvack's previous agreement with Capricor, Inc., upon the closing of each Qualified Financing until such time that Capricor, Inc. reached a threshold of $10 million financing (including the sums previously received from sales of Series A-3 shares), Dr. Litvack was to be granted an additional option to purchase that number of shares of Capricor, Inc. common stock necessary to maintain Dr. Litvack's equity position at ten percent (10%) of the outstanding shares of all Capricor, Inc. stock on a fully diluted basis (the "Anti-Dilution Rights"). On August 21, 2013, Capricor, Inc. entered into an agreement and release of all claims pursuant to which Dr. Litvack was granted an additional option to purchase 207,485 option shares calculated after giving effect to the merger between Nile and Capricor in exchange for forfeiture of these Anti-Dilution Rights. In addition, the terms of each of Dr. Litvack's stock option agreements were modified to extend the exercise period during which he has to exercise his options for Company common stock after he ceases to be a service provider to the Company from 90 days to one year.

On March 24, 2014, the Company entered into a consulting agreement with Dr. Litvack memorializing the $10,000 per month compensation arrangement described above. The agreement is terminable upon 30 days' notice.

On May 1, 2012, Dr. Litvack entered into a sublease with Capricor pursuant to which he subleased from Capricor an office and an administrative bay located within Capricor's leased premises in Beverly Hills, California for a monthly rate of $2,500. On April 1, 2013, the foregoing sublease was terminated and Reprise Technologies LLC, a limited liability company which is wholly owned by Dr. Litvack, executed a new sublease for an office and administrative bay within Capricor's leased premises for a monthly rate of $2,500. Such sublease is on a month-to-month basis and is terminable upon 30 days' written notice by either party.

Director Independence

In determining whether the members of our board of directors and its committees are independent, we have elected to use the definition of "independence" set forth in the listing standards of the NASDAQ Stock Market, which requires that a majority of the board of directors qualify as independent, as determined by the board of directors. After considering all relevant relationships and transactions, our board of directors, in consultation with legal counsel, has determined that Messrs. Schafer, Dunbar, Musket, Collier, Manzo, Grasmick and Dr. Litvack are "independent" within the meaning of the applicable listing standards of the NASDAQ Stock Market. In making this determination, the board of directors found that none of these directors had a material or other disqualifying relationship with us. In addition to transactions required to be disclosed under SEC rules, the board of directors considered certain other relationships in making its independence determinations, and determined in each case that such other relationships did not impair the director's ability to exercise independent judgment on our behalf.

Dr. Marbán, our Chief Executive Officer, is not an independent director by virtue of her employment with us. Mr. Kazam is also deemed not an independent director due to his previous relationship, and that of his consulting firm Two River Consulting, LLC, with Nile Therapeutics, Inc.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Auditor Fees

The following is a summary of the fees billed to us by Rose, Snyder & Jacobs LLP and Crowe Horwath LLP, our independent registered public accounting firms, for professional services rendered for fiscal years ended December 31, 2013 and 2012:

	Fiscal Year Ended December 31,	
Service Category	2013	2012
Audit Fees	$194,150	$100,880
Audit-Related Fees	—	2,044
Tax Fees	14,720	6,500
All Other Fees	—	—
Total Fees	$208,870	$109,424

In the above table, in accordance with the SEC's definitions and rules, "audit fees" are fees for professional services for the audit and review of our annual financial statements, as well as the audit and review of our financial statements included in our registration statements filed under the Securities Act and issuance of consents and for services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements except those not required by statute or regulation; "audit-related fees" are fees for assurance and related services that were reasonably related to the performance of the audit or review of our financial statements, including attestation services that are not required by statute or regulation, due diligence and services related to acquisitions; "tax fees" are fees for tax compliance, tax advice and tax planning; and "all other fees" are fees for any services not included in the first three categories.

Audit Committee Pre-Approval Process

Pursuant to our Audit Committee Charter, before the independent registered public accounting firm is engaged by the Company or its subsidiaries to render audit or non-audit services, the Audit Committee pre-approves the engagement. Audit Committee pre-approval of audit and non-audit services is not required if the engagement for the services is entered into pursuant to pre-approval policies and procedures established by the Audit Committee regarding the Company's engagement of the independent registered public accounting firm, provided the policies and procedures are detailed as to the particular service, the Audit Committee is informed of each service provided and such policies and procedures do not include delegation of the Audit Committee's responsibilities under the Exchange Act to the Company's management. The Audit Committee may delegate to one or more designated members of the Audit

Committee the authority to grant pre-approvals, provided such approvals are presented to the Audit Committee at a subsequent meeting. If the Audit Committee elects to establish pre-approval policies and procedures regarding non-audit services, the Audit Committee must be informed of each non-audit service provided by the independent registered public accounting firm. Audit Committee pre-approval of non-audit services (other than review and attest services) also is not be required if such services fall within available exceptions established by the SEC. None of the services provided by our independent registered public accounting firm for fiscal 2013 or 2012 were obtained in reliance on the waiver of the pre-approval requirement afforded in SEC regulations.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

2.1	Agreement and Plan of Merger, dated as of August 15, 2007, by and among SMI Products, Inc., Nile Merger Sub, Inc. and Nile Therapeutics, Inc. (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K, filed with the Commission on August 17, 2007).
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24.1	Power of Attorney (included on signature page hereof).*
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* Filed herewith.

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+ The Company has received confidential treatment with respect to certain portions of this exhibit. Omitted portions have been filed separately with the SEC.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on March 31, 2014.

CAPRICOR
THERAPEUTICS, INC.

By: /s/ Linda Marbán, Ph.D.
Linda Marbán, Ph.D.

Chief Executive Officer

KNOW ALL MEN BY THESE PRESENTS, that we, the undersigned officers and directors of Capricor Therapeutics, Inc., hereby severally constitute Linda Marbán, Ph.D. and Anthony Bergmann, and each of them singly, our true and lawful attorneys with full power to them, and each of them singly, to sign for us and in our names in the capacities indicated below, any and all amendments to said Form 10-K, and generally to do all such things in our names and in our capacities as officers and directors to enable Capricor Therapeutics, Inc. to comply with the provisions of the Securities Exchange Act of 1934, and all requirements of the U.S. Securities and Exchange Commission, hereby ratifying and confirming our signatures as they may be signed by our said attorneys, or any of them, to any and all amendments hereto.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	**Title**	**Date**
		March 31, 2014
/s/ Linda Marbán, Ph.D.	Chief Executive Officer and Director	
Linda Marbán, Ph.D.	*(Principal Executive Officer)*	
/s/ Anthony J. Bergmann	Vice President of Finance	March 31, 2014
Anthony J. Bergmann	*(Principal Financial and Accounting Officer)*	

March 31, 2014

/s/ Frank Litvack, M.D.

Frank Litvack, M.D. Executive Chairman

March 31, 2014

/s/ Joshua A. Kazam

Director

Joshua A. Kazam

March 31, 2014

/s. Earl M. Collier

Director

Earl M. Collier

March 31, 2014

/s/ Louis V. Manzo

Director

Louis V. Manzo

March 31, 2014

/s/ Louis J. Grasmick

Director

Louis J. Grasmick

March 31, 2014

/s/ Gregory W. Schafer

Director

Gregory W. Schafer

/s/ George W. Dunbar Director March 31, 2014

George W. Dunbar

/s/ David B. Musket March 31, 2014

Director

David B. Musket

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INDEX OF EXHIBITS FILED WITH THIS REPORT

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