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

FORM 8-K/A

CURRENT REPORT
Pursuant to Section 13 or 15(d) of
The Securities Exchange Act of 1934

Date of Report (Date of earliest event reported)

November 20, 2013

CAPRICOR THERAPEUTICS, INC.
(Exact name of Registrant as Specified in its Charter)

Delaware	**001-34058**	**88-0363465**
(State or other jurisdiction of incorporation)	**(Commission File Number)**	**(I.R.S. Employer Identification No.)**

8840 Wilshire Blvd., 2nd Floor, Beverly Hills, CA	**90211**
(Address of principal executive offices)	**(Zip Code)**

(310) 358-3200
(Registrant's telephone number, including area code)

Not Applicable
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Explanatory Note

This Amendment No. 1 to Current Report on Form 8-K ("Amendment No. 1") is being filed to amend the Current Report on Form 8-K filed with the Securities and Exchange Commission on November 26, 2013 (the "Initial 8-K"), by Capricor Therapeutics, Inc. ("Capricor Therapeutics"), which was filed to report that, pursuant to that certain Agreement and Plan of Merger and Reorganization (the "Merger Agreement"), 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 (the "First Amendment"), by and among Nile Therapeutics, Inc. ("Nile"), Bovet Merger Corp., a Delaware corporation and a wholly-owned subsidiary of Nile ("Merger Sub"), and Capricor, Inc., a privately-held company incorporated in Delaware ("Capricor"), Merger Sub merged with and into Capricor and Capricor became a wholly-owned subsidiary of Nile (the "Merger"). The Initial 8-K was also filed to report that, immediately prior to the Merger and in connection therewith, Nile filed certain amendments to its certificate of incorporation (the "Charter Amendments") which: (i) effected a 1-for-50 reverse split of its common stock, (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. This Amendment No. 1 amends Item 9.01 of the Initial 8-K. This Amendment No. 1 provides the historical financial statements of the business acquired as required by Item 9.01(a) and the unaudited pro forma financial information required by Item 9.01(b), which financial statements and information were not included in the Initial 8-K pursuant to applicable regulation. Additionally, this Amendment No. 1 is being filed to report a change in Capricor Therapeutics' certifying accountant and the departure of a named executive officer of Capricor Therapeutics.

Item 4.01 Changes in Registrant's Certifying Accountant

On January 17, 2014, the Audit Committee (the "Audit Committee") of Capricor Therapeutics (formally Nile Therapeutics, Inc.) approved the dismissal of Crowe Horwath LLP ("Crowe Horwath") as Capricor Therapeutics' independent registered public accounting firm.

Crowe Horwath served as the independent registered public accounting firm of Nile for the years ended December 31, 2012 and 2011. Crowe Horwath's reports on Nile's financial statements for the years ended December 31, 2012 and 2011 did not contain any adverse opinion or disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principles; except that the audit reports on Nile's financial statements for the years ended December 31, 2012 and 2011 contained an uncertainty about Nile's ability to continue as a going concern. During the fiscal years ended December 31, 2012 and 2011, and through January 17, 2014, there were no disagreements between Nile and Crowe Horwath on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedures, which, if not resolved to the satisfaction of Crowe Horwath, would have caused Crowe Horwath to make reference to the matter in their report. None of the "reportable events" described in Item 304(a)(1)(v) of Regulation S-K of the Securities and Exchange Commission's rules and regulations have occurred during the fiscal years ended December 31, 2012 and 2011 or through January 17, 2014.

Capricor Therapeutics has provided Crowe Horwath with a copy of this report and has requested that Crowe Horwath furnish Capricor Therapeutics with a letter addressed to the Securities and Exchange Commission stating whether or not it agrees with the statements made above. A copy of Crowe Horwath's letter dated January 22, 2014 is attached as Exhibit 16.1 to this Current Report on Form 8-K.

On January 17, 2014, the Audit Committee engaged Rose, Snyder & Jacobs LLP as Capricor Therapeutics' new independent registered public accounting firm. During each of the two fiscal years ended December 31, 2012 and 2011 and through the subsequent interim period preceding the engagement, neither Nile nor anyone on its behalf consulted with Rose, Snyder & Jacobs LLP regarding either: (i) the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on Nile's financial statements, and neither a written report was provided to Nile nor oral advice was provided that Rose, Snyder & Jacobs LLP concluded was an important factor considered by Nile in reaching a decision as to any accounting, auditing or financial reporting issue; or (ii) any matter that was the subject of a disagreement, as that term is defined in Item 304(a)(1)(iv) of Regulation S-K and the related instructions to Item 304 of Regulation S-K, or a reportable event, as that term is defined in Item 304(a)(1)(v) of Regulation S-K. Rose, Snyder & Jacobs LLP has served as the independent auditors for Capricor, Inc. in connection with Capricor's financial statement audit for 2011 and 2012.

Item 5.02 Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers

On January 20, 2014, the employment of Anthony Davies as the Company's Chief Technology Officer was terminated by mutual agreement of Capricor Therapeutics and Mr. Davies, effective immediately.

Item 9.01 Financial Statements and Exhibits

(a) Financial Statements of Businesses Acquired

The following financial statements for Capricor, Inc. are filed as Exhibit 99.1 hereto and incorporated by reference herein:

- Capricor, Inc.'s audited financial statements for the years ended December 31, 2012 and 2011

The following financial statements for Capricor, Inc. are filed as Exhibit 99.2 hereto and incorporated by reference herein:

- Capricor, Inc.'s unaudited financial statements for the nine months ended September 30, 2013 and 2012

(b) Pro Forma Financial Information

The pro forma financial information reflecting the Merger is filed as Exhibit 99.3 hereto and incorporated by reference herein.

(c) Not applicable

(d) Exhibits

The following exhibits are being furnished herewith:

Exhibit No.	Description
16.1	Letter from Crowe Horwath LLP to Securities and Exchange Commission, dated January 22, 2014
23.1	Consent of Rose, Snyder & Jacobs LLP
99.1	Audited Financial Statements of Capricor, Inc. for the years ended December 31, 2012 and 2011
99.2	Unaudited Financial Statements of Capricor, Inc. for the nine months ended September 30, 2013 and 2012
99.3	Unaudited Pro Forma Condensed Financial Statements

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, hereunto duly authorized.

CAPRICOR THERAPEUTICS, INC.

Date: January 23, 2014	By:	/s/ Linda Marbán, Ph.D.
		Linda Marbán, Ph.D.
		Chief Executive Officer

EXHIBIT INDEX

Capricor Therapeutics, Inc.
Form 8-K/A Current Report

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99.3	Unaudited Pro Forma Condensed Financial Statements

Crowe Horwath.

Crowe Horwath LLP
Independent Member Crowe Horwath International

488 Madison Avenue, Floor 3
New York, New York 10022-5722
Tel 212.572.5500
Fax 212.572.5572
www. crowehorwath.com

January 22, 2014

Office of the Chief Accountant
Securities and Exchange Commission
100 F Street, N. E.
Washington, D.C. 20549

Ladies and Gentlemen:

We have read the comments made regarding us in Item 4.01 of Form 8-K of Capricor Therapeutics, Inc. dated January 17, 2014 and are in agreement with those statements.

Sincerely,

/s/ Crowe Horwath LLP
Crowe Horwath LLP
New York, New York

cc: Mr. Gregory Schafer
Audit Committee Chairman
Capricor Therapeutics, Inc.

Rose, Snyder & Jacobs LLP
ACCOUNTANTS & ADVISORS

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation, in this Current Report on Form 8-K/A of Capricor Therapeutics, Inc. of our report dated July 17, 2013, with respect to the financial statements of Capricor, Inc. for the years ended December 31, 2012 and 2011 and for the period from July 5, 2005 (inception) through December 31, 2012.

/s/ Rose, Snyder & Jacobs LLP
Rose, Snyder & Jacobs LLP

Encino, California
January 22, 2014

15821 Ventura Boulevard, Suite 490, Encino, California 91436
Phone: (818) 461-0600 · Fax: (818) 461-0610

FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

CAPRICOR, INC.
(A DEVELOPMENT STAGE COMPANY)

CONTENTS

Rose, Snyder & Jacobs LLP
ACCOUNTANTS & ADVISORS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders
of Capricor, Inc.

We have audited the accompanying financial statements of Capricor, Inc. (a Delaware corporation), which comprise the balance sheets as of December 31, 2012 and 2011, and the related statements of operations and comprehensive loss, shareholders' equity (deficit), and cash flows for the years then ended and for the period from July 5, 2005 (inception) through December 31, 2012, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America as established by the Auditing Standards Board (United States) and in accordance with auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Capricor, Inc. is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Capricor, Inc. as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended and for the period from July 5, 2005 (inception) through December 31, 2012, in accordance with accounting principles generally accepted in the United States of America.

/s/ Rose, Snyder & Jacobs LLP
Rose, Snyder & Jacobs LLP

Encino, California
July 17, 2013

15821 Ventura Boulevard, Suite 490, Encino, California 91436
Phone: (818) 461-0600 · Fax: (818) 461-0610

CAPRICOR, INC.
(A DEVELOPMENT STAGE COMPANY)
BALANCE SHEETS
DECEMBER 31, 2012 AND 2011

	2012	2011
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 170,106	$ 1,550,248
Marketable securities	4,192,726	-
Grants receivable	767,163	407,616
Interest receivable	25,215	-
Prepaid expenses and other current assets	38,042	11,358
TOTAL CURRENT ASSETS	5,193,252	1,969,222
PROPERTY AND EQUIPMENT, at cost		
Furniture and equipment	29,623	27,202
Laboratory equipment	68,878	57,871
	98,501	85,073
Less accumulated depreciation	(64,558)	(48,551)
NET PROPERTY AND EQUIPMENT	33,943	36,522
OTHER ASSETS		
Patents, net of accumulated amortization of $28,145 and $23,815, respectively	178,307	93,087
Deposits	18,088	9,108
TOTAL ASSETS	$ 5,423,590	$ 2,107,939
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 264,707	$ 187,532
Accounts payable and accrued expenses, related party	164,484	159,930
Sub-award payable, related party	75,072	80,421
Accrued royalties	24,904	24,904
TOTAL CURRENT LIABILITIES	529,167	452,787
COMMITMENTS AND CONTINGENCIES, note 6		
SHAREHOLDERS' EQUITY		
Series A-1 Preferred stock, $0.001 par, 940,000 shares authorized, issued and outstanding	940	940
Series A-2 Preferred stock, $0.001 par, 736,844 shares authorized, issued and outstanding	737	737
Series A-3 Preferred stock, $0.001 par, 3,750,000 shares authorized, 1,500,000 and 250,000 shares issued and outstanding, respectively	1,500	250
Common stock, $0.001 par, 10,074,450 shares authorized, 1,812,078 shares issued and outstanding	1,812	1,812
Additional paid-in capital	12,120,051	6,788,954
Subscription receivable	(2,211)	(2,185)
Accumulated other comprehensive loss	(21,795)	-
Deficit accumulated during the development stage	(7,206,611)	(5,135,356)
TOTAL SHAREHOLDERS' EQUITY	4,894,423	1,655,152
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 5,423,590	$ 2,107,939

See independent auditors' report
and notes to financial statements.

CAPRICOR, INC.
(A DEVELOPMENT STAGE COMPANY)
STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011 AND THE PERIOD
FROM JULY 5, 2005 (INCEPTION) THROUGH DECEMBER 31, 2012

	Years Ended December 31, 2012	Years Ended December 31, 2011	July 5, 2005 (inception) through December 31, 2012
GRANT INCOME	$ 1,898,764	$ 1,205,702	$ 3,677,737
OPERATING EXPENSES			
Research and development	2,634,222	1,666,309	6,302,417
General and administrative	1,364,582	690,543	4,744,712
TOTAL OPERATING EXPENSES	3,998,804	2,356,852	11,047,129
LOSS FROM OPERATIONS	(2,100,040)	(1,151,150)	(7,369,392)
OTHER INCOME (EXPENSES)			
Investment income	28,785	1,830	162,781
TOTAL OTHER INCOME (EXPENSES)	28,785	1,830	162,781
NET LOSS	(2,071,255)	(1,149,320)	(7,206,611)
OTHER COMPREHENSIVE LOSS			
Net unrealized loss on marketable securities	(21,795)	-	(21,795)
COMPREHENSIVE LOSS	$ (2,093,050)	$ (1,149,320)	$ (7,228,406)
Net loss attributable to common stockholders per share, basic and diluted	$ (1.58)	$ (0.88)	
Weighted average number of shares, basic and diluted	1,812,078	1,812,078	

See independent auditors' report
and notes to financial statements.

CAPRICOR, INC.
(A DEVELOPMENT STAGE COMPANY)
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE PERIOD FROM JULY 5, 2005 (INCEPTION) THROUGH DECEMBER 31, 2012

	Series A-1 Preferred Stock		Series A-2 Preferred Stock		Series A-3 Preferred Stock		Common Stock		Additional	Subcription	Other Comprehensive	Deficit Accumulated During the Development	
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Paid-In Capital	Receivable	Loss	Stage	Total
Balance, July 5, 2005	-	$ -	-	$ -	-	$ -	-	$ -	$ -	$ -	$ -	$ -	$ -
Common stock issued to founders	-	-	-	-	-	-	1,800,000	1,800	-	(1,800)	-	-	-
Interest on subscription receivable	-	-	-	-	-	-	-	-	-	(36)	-	-	(36)
Net income	-	-	-	-	-	-	-	-	-	-	-	36	36
Balance, December 31, 2005	-	-	-	-	-	-	1,800,000	1,800	-	(1,836)	-	36	-
Series A-1 preferred stock issued for cash at $3.20 per share	940,000	940	-	-	-	-	-	-	3,007,060	-	-	-	3,008,000
Interest on subscription receivable	-	-	-	-	-	-	-	-	-	(86)	-	-	(86)
Net loss	-	-	-	-	-	-	-	-	-	-	-	(1,171,419)	(1,171,419)
Balance, December 31, 2006	940,000	940	-	-	-	-	1,800,000	1,800	3,007,060	(1,922)	-	(1,171,383)	1,836,495
Interest on subscription receivable	-	-	-	-	-	-	-	-	-	(71)	-	-	(71)
Stock-based compensation	-	-	-	-	-	-	-	-	5,820	-	-	-	5,820
Net loss	-	-	-	-	-	-	-	-	-	-	-	(979,076)	(979,076)
Balance, December 31, 2007	940,000	940	-	-	-	-	1,800,000	1,800	3,012,880	(1,993)	-	(2,150,459)	863,168
Common stock issued for services at $0.32 per share	-	-	-	-	-	-	12,078	12	3,846	-	-	-	3,858
Interest on subscription receivable	-	-	-	-	-	-	-	-	-	(37)	-	-	(37)
Stock-based compensation	-	-	-	-	-	-	-	-	16,422	-	-	-	16,422
Net loss	-	-	-	-	-	-	-	-	-	-	-	(630,859)	(630,859)
Balance, December 31, 2008	940,000	940	-	-	-	-	1,812,078	1,812	3,033,148	(2,030)	-	(2,781,318)	252,552

See independent auditors' report
and notes to financial statements.

CAPRICOR, INC.
(A DEVELOPMENT STAGE COMPANY)
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (CONTINUED)
FOR THE PERIOD FROM JULY 5, 2005 (INCEPTION) THROUGH DECEMBER 31, 2012

	Series A-1 Preferred Stock		Series A-2 Preferred Stock		Series A-3 Preferred Stock		Common Stock		Additional	Subcription	Other Comprehensive	Deficit Accumulated During the Development	
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Paid-In Capital	Receivable	Loss	Stage	Total
Balance, December 31, 2008	940,000	940	-	-	-	-	1,812,078	1,812	3,033,148	(2,030)	-	(2,781,318)	252,552
Series A-2 preferred stock and warrants issued for cash at $3.80 per unit	-	-	210,528	210	-	-	-	-	799,797	-	-	-	800,007
Interest on subscription receivable	-	-	-	-	-	-	-	-	-	(69)	-	-	(69)
Stock-based compensation	-	-	-	-	-	-	-	-	8,251	-	-	-	8,251
Net loss	-	-	-	-	-	-	-	-	-	-	-	(148,970)	(148,970)
Balance, December 31, 2009	940,000	940	210,528	210	-	-	1,812,078	1,812	3,841,196	(2,099)	-	(2,930,288)	911,771
Series A-2 preferred stock issued for cash at $3.80 per share	-	-	526,316	527	-	-	-	-	1,999,473	-	-	-	2,000,000
Equity offering transaction costs	-	-	-	-	-	-	-	-	(91,155)	-	-	-	(91,155)
Interest on subscription receivable	-	-	-	-	-	-	-	-	-	(57)	-	-	(57)
Stock-based compensation	-	-	-	-	-	-	-	-	24,163	-	-	-	24,163
Net loss	-	-	-	-	-	-	-	-	-	-	-	(1,055,748)	(1,055,748)
Balance, December 31, 2010	940,000	940	736,844	737	-	-	1,812,078	1,812	5,773,677	(2,156)	-	(3,986,036)	1,788,974
Series A-3 preferred stock issued for cash at $4.00 per share	-	-	-	-	250,000	250	-	-	999,750	-	-	-	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, December 31, 2011	940,000	940	736,844	737	250,000	250	1,812,078	1,812	6,788,954	(2,185)	-	(5,135,356)	1,655,152

See independent auditors' report
and notes to financial statements.

CAPRICOR, INC.
(A DEVELOPMENT STAGE COMPANY)
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (CONTINUED)
FOR THE PERIOD FROM JULY 5, 2005 (INCEPTION) THROUGH DECEMBER 31, 2012

	Series A-1 Preferred Stock		Series A-2 Preferred Stock		Series A-3 Preferred Stock		Common Stock		Additional	Subcription	Other Comprehensive	Deficit Accumulated During the Development	
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Paid-In Capital	Receivable	Loss	Stage	Total
Balance, December 31, 2011	940,000	940	736,844	737	250,000	250	1,812,078	1,812	6,788,954	(2,185)	-	(5,135,356)	1,655,152
Series A-3 preferred stock issued for cash at $4.00 per share	-	-	-	-	1,250,000	1,250	-	-	4,998,750	-	-	-	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, December 31, 2012	940,000	$ 940	736,844	$ 737	1,500,000	$ 1,500	1,812,078	$ 1,812	$ 12,120,051	$ (2,211)	$ (21,795)	$ (7,206,611)	$ 4,894,423

See independent auditors' report
and notes to financial statements.

CAPRICOR, INC.
(A DEVELOPMENT STAGE COMPANY)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011 AND THE PERIOD
FROM JULY 5, 2005 (INCEPTION) THROUGH DECEMBER 31, 2012

	Years Ended December 31, 2012	2011	July 5, 2005 (inception) through December 31, 2012
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	$ (2,071,255)	$ (1,149,320)	$ (7,206,611)
Adjustments to reconcile net loss to net cash used in operating activities:			
Gain on sale of property and equipment	-	-	(3,707)
Depreciation and amortization	20,337	21,098	137,809
Common stock issued for services	-	-	3,858
Stock-based compensation	332,347	15,527	402,530
Change in assets - (increase) decrease:			
Grants receivable	(359,547)	(56,091)	(767,163)
Interest receivable	(25,215)	-	(25,215)
Prepaid expenses and other current assets	(26,684)	(1,518)	(38,042)
Deposits	(8,980)	-	(18,088)
Change in liabilities - increase (decrease):			
Accounts payable and accrued expenses	77,149	57,343	264,296
Accounts payable and accrued expenses, related party	4,554	-	164,484
Sub-award payable, related party	(5,349)	29,341	75,072
Accrued royalties	-	11,353	24,904
NET CASH USED IN OPERATING ACTIVITIES	(2,062,643)	(1,072,267)	(6,985,873)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of marketable securities	(4,214,521)	-	(4,214,521)
Proceeds from sale of property and equipment	-	-	88,908
Payments for purchase of property and equipment	(13,428)	(14,584)	(228,808)
Payments for patents	(89,550)	(42,028)	(206,452)
NET CASH USED IN INVESTING ACTIVITIES	(4,317,499)	(56,612)	(4,560,873)
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	1,000,000	6,000,000
Costs related to the issuance of preferred stock and warrants	-	-	(91,155)
NET CASH PROVIDED BY FINANCING ACTIVITIES	5,000,000	1,000,000	11,716,852
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,380,142)	(128,879)	170,106
Cash and cash equivalents balance at beginning of period	1,550,248	1,679,127	-
Cash and cash equivalents balance at end of period	$ 170,106	$ 1,550,248	$ 170,106
SUPPLEMENTAL DISCLOSURES:			
Interest paid in cash	$ -	$ -	$ -
Income taxes paid in cash	$ -	$ -	$ -

See independent auditors' report
and notes to financial statements.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business Activity

Capricor, Inc. (the "Company") was incorporated on July 5, 2005 in the State of Delaware. The Company develops products for the treatment of cardiovascular disease. Capricor's lead product candidate, a stem cell treatment for heart disease following a myocardial infarction, is currently in the development stage.

Development Stage Activities

Since inception, the Company has not generated revenues other than revenues from various government research grants. All of the operating results and cash flows reported in the accompanying financial statements from July 5, 2005 (inception) through December 31, 2012 are considered to be those related to the development stage activities and represent the 'cumulative from inception' amounts required to be reported pursuant to the accounting standards for Development Stage Companies.

Use of Estimates

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

Government Research Grants

Government research grants that provide for payments to the Company for work performed are recognized as income when the related expenses are incurred.

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.

Marketable Securities

At December 31, 2012 and 2011, 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).

Property and Equipment

Property and equipment are recorded at cost. Depreciation of property and equipment is computed using the straight-line method over the respective estimated useful lives of the assets ranging from five to seven years. Depreciation expense was $16,007, $16,768 and $109,664 for the years ended December 31, 2012 and 2011 and for the period from July 5, 2005 (inception) through December 31, 2012, respectively.

See independent auditors' report.

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

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 $292,866 for the years ended December 31, 2012 and 2011 and for the period from July 5, 2005 (inception) through December 31, 2012, respectively. Future amortization expense for the next five years is estimated to be $4,330 per year. At December 31, 2012, the Company had $128,762 attributable to pending patents for which amortization has not begun.

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 impairments were recorded for the years ended December 31, 2012 and 2011 and for the period from July 5, 2005 (inception) through December 31, 2012.

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 all of the 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, 2012 and 2011 and for the period from July 5, 2005 (inception) through December 31, 2012. The Company files income tax returns with the Internal Revenue Service (“IRS”), the California Franchise Tax Board, and the Comptroller of Maryland. The last filing for Maryland was for the calendar year 2011, as the Company no longer has an operational presence in the state. For jurisdictions in which tax filings are prepared, the Company is no longer subject to income tax examinations by the California Franchise Tax Board authorities for tax years through 2007, and by the IRS and the Comptroller of Maryland for tax years through 2008. The Company’s net operating loss carryforwards are subject to IRS examination until they are fully utilized and such tax years are closed.

Research and Development

Costs relating to the designing 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 $2,634,222, $1,666,309, and $6,302,417 for the years ended December 31, 2012 and 2011 and for the period from July 5, 2005 (inception) through December 31, 2012, respectively.

See independent auditors’ report.

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

Comprehensive Income

Comprehensive income 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, 2012 and 2011 and for the period from July 5, 2005 (inception) through December 31, 2012, the Company incurred a comprehensive loss of $21,795, $0, and $21,795, respectively, related to a net unrealized 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 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.

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 uses 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, warrants issued to third parties, and convertible preferred stock, have been excluded from the diluted loss per share calculation because their effect is anti-dilutive.

The following is a schedule of losses attributable to common stockholders for the years ended December 31, 2012 and 2011:

	For the Years Ended December 31, 2012	2011
Net loss	$ (2,071,255)	$ (1,149,320)
Less: Preferred stock dividends	(794,823)	(442,125)
Net loss attributable to common stockholders	$ (2,866,078)	$ (1,591,445)

See independent auditors' report.

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

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, 2012 for assets and liabilities measured at fair value on a recurring basis:

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

The Company had no assets subject to the fair value measurements at December 31, 2011. 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.

Liquidity

The Company has generated losses and negative cash flows from operations since inception. Capricor, Inc. has historically financed its operations from equity financing. Since 2005, the Company has used equity financed cash and government grant income to finance research and development activities.

Based upon the Company's cash and marketable securities on hand, the Company's management anticipates it will be able to satisfy the cash requirements of its operations through at least the next twelve months. The Company anticipates that additional equity financings, asset sales, and/or licensing arrangements, co-development arrangements, and the further pursuit of additional grant opportunities will be necessary to continue to fund operations in the future. Should management fail to adequately address the issue, the Company may have to reduce its business activities or curtail its operations.

The accompanying financial statements have been prepared on a going concern basis of accounting, which contemplates continuity of operations, realization of assets and classification of liabilities and commitments in the normal course of business. The accompanying financial statements do not reflect any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classifications of liabilities that might result if the Company is unable to continue as a going concern.

See independent auditors' report.

2. CONVERTIBLE PREFERRED STOCK

The Company is authorized to issue 5,426,844 shares of convertible preferred stock ("Preferred Stock"), which is allocated as follows; Series A-1: 940,000 shares, Series A-2: 736,844 shares, and Series A-3: 3,750,000 shares, of which 1,500,000 shares have been issued.

The Preferred Stock accrues cumulative annual dividends and is compounded annually at the rate of 6% of the applicable Series A Purchase Price per share. The dividends shall be payable only if, as and when determined by the Company's Board of Directors. Each series of preferred stock ranks pari-pasu with each other series of preferred stock, and senior to the common stock of the Company, as to dividends, and upon liquidation, dissolution or a winding up of the Company. In the event of a "Liquidation Event" as such term is defined in the Company's Fourth Amended and Restated Certificate of Incorporation, before any assets shall be distributed to the holders of common stock, the holders of Preferred Stock shall be entitled to be paid out of the assets available for distribution an amount equal to the applicable Series A Purchase Price plus all accrued and unpaid dividends.) Upon conversion of the Preferred Stock, all accrued dividends shall be cancelled. No distribution will be made with respect to common stock until all declared or accrued but unpaid dividends on preferred stock have been paid or set aside for payment. Cumulative dividends as of December 31, 2012 amounted to $2,197,687.

At December 31, 2012, the Preferred Stock has an aggregate liquidation preference of approximately $14,006,000, which includes cumulative dividends. Holders of the Preferred Stock, at their option, may convert their shares into shares of common stock at a ratio of one to one.

The Preferred Stock shall be automatically convertible in the event (i) a registration statement on Form S-1 is declared effective, or such successor form, under the Securities Act, or (ii) a majority of the outstanding Preferred Stock vote to either (a) convert their shares of Preferred stock into shares of common stock, or (b) vote to approve a reverse merger of the Company with and into an existing public company.

Holders of Preferred Stock are entitled to cast the number of votes equal to the number of common shares into which the shares of Preferred Stock held by such holders are convertible as of the record date. The holders of Preferred Stock vote together with the holders of common stock as a single class, except as otherwise specifically required.

Series A-1 Financing

During the years ended December 31, 2012 and 2011 and for the period from July 5, 2005 (inception) through December 31, 2012, the Company issued 0, 0 and 940,000 shares of Series A-1 convertible preferred stock, respectively, with a par value of $0.001 per share, for cash proceeds of $0, $0, and $3,009,800, respectively.

Series A-2 Financing

During the years ended December 31, 2012 and 2011 and for the period from July 5, 2005 (inception) through December 31, 2012, the Company issued 0, 0, and 736,844 shares of Series A-2 convertible preferred stock, respectively, with a par value of $0.001 per share, for cash proceeds of $0, $0, and $2,800,000, respectively.

Series A-3 Financing

During the years ended December 31, 2012 and 2011 and for the period from July 5, 2005 (inception) through December 31, 2012, the Company issued 1,250,000, 250,000, and 1,500,000 shares of Series A-3 convertible preferred stock, respectively, with a par value of $0.001 per share, for cash proceeds of $5,000,000, $1,000,000, and $6,000,000, respectively.

See independent auditors' report.

3. INCOME TAXES

The Company provides deferred income taxes for differences between the tax reporting bases and the financial reporting bases of assets and liabilities. The Company follows the accounting procedures established by FASB ASC 740, *Income Taxes.* The difference between income tax expense attributable to continuing operations and the amount of income tax expense that would result from applying domestic federal statutory rates to pre-tax income (loss) is mainly related to an increase in the valuation allowance, partially offset by state income taxes. The Company is in the process of determining the amount of net operating loss carryforwards available to offset future taxable income. At December 31, 2012, the Company has approximately $6,470,000, of state and federal NOL carryforwards that expire through 2032. The above described carryforwards are included in the Company's calculation of its deferred tax asset; however, realization of the deferred tax asset is dependent on the Company generating sufficient taxable income prior to expiration of the loss carryforwards. Valuation allowances are established, when necessary, to reduce deferred income tax assets to the amount expected to be realized. Deferred income tax assets are mainly related to net operating loss carryforwards. Management has chosen to take a 100% valuation allowance against the deferred income tax asset until such time as management believes that its projections of future profits make the realization of the deferred income tax assets more likely than not. Significant judgment is required in the evaluation of deferred tax benefits and differences in future results from management’s estimates could result in material differences.

4. STOCK OPTIONS AND WARRANTS

Warrants

During the year ended December 31, 2009 the Company issued warrants to purchase shares of common stock in conjunction with the issuance of the Series A-2 preferred stock. As of December 31, 2012, the Company has 835,528 warrants outstanding with an exercise price of $7.00 per share. These warrants expire December 31, 2014, unless terminated earlier pursuant to the terms of the warrant agreements.

Stock Options

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

The 2012 Plan reserves 2,000,000 shares for the grant of stock options, stock appreciation rights, restricted stock awards and performance unit/share awards by the Board of Directors to employees, consultants and other service providers. Options issued under the 2012 Plan are limited to an annual aggregate of $100,000 per participant. Included in that number is the 1,000,000 shares that were originally reserved under the 2006 Stock Option Plan.

The 2012 Non-Employee Director Plan reserves 1,300,000 shares for the grant of stock options to members of the Board of Directors who are not employees of the Company.

Under both plans the exercise price of stock options may not be less than the fair market value of the Company's common stock at the date of the grant as determined by the Company’s Board of Directors. The vesting terms of options issued under the Plans range from immediate vesting up to ratable vesting on the anniversary date of the grant over five years. The Board of Directors determines the price, terms, vesting, and any other conditions of each grant. All options expire ten years after the date of grant.

4. STOCK OPTIONS AND WARRANTS (Continued)

As of December 31, 2012, there were options granted and outstanding to purchase 1,773,535 shares of Common Stock under the Plans to employees and non-employees. During the year ended December 31, 2012 and 2011, 1,418,035 and 0 options were granted to employees and non-employees under the Plans, respectively.

Upon the closing of each qualified financing until such time that the Company has reached the threshold of $10,000,000 (including the $6,000,000 already received), one of the Directors is entitled to receive an additional option to purchase that number of shares of the company common stock necessary to maintain his equity position at 10% of the outstanding shares of the Company's stock on a fully diluted basis

The following is a schedule summarizing stock option activity for the years ended December 31, 2012 and 2011:

	Number of Options	Weighted-Average Exercise Price
Outstanding at January 1, 2011	355,500	$ 0.78
Granted	-	-
Exercised	-	-
Outstanding at December 31, 2011	355,500	0.78
Granted	1,418,035	0.75
Exercised	-	-
Outstanding at December 31, 2012	1,773,535	$ 0.76
Exercisable at December 31, 2012	795,365	$ 0.77

The Company did not grant any stock options in 2011. For the options granted in 2012, the estimated weighted average fair value of the stock options ranged from $0.56 to $0.62 per share, and was calculated using Black-Scholes pricing model based on the following assumptions:

Risk-free interest rate	0.63% - 1.34%
Volatility	100%
Term	5 - 7 years
Dividend yield	0%

As of December 31, 2012, the total unrecognized fair value compensation cost related to non-vested stock options was $555,680 which is expected to be recognized over 2.77 years.

See independent auditors' report.

4. STOCK OPTIONS AND WARRANTS (Continued)

Information about stock options outstanding at December 31, 2012 is summarized below:

Stock Options Outstanding			
Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
$0.32 - $0.38	48,500	5.80 Years	$ 0.34
$0.75 - $0.76	1,698,035	9.11 Years	$ 0.75
$1.80	27,000	5.95 Years	$ 1.80

Stock Options Exercisable			
Exercise Price	Number Exercisable	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
$0.32 - $0.38	39,875	5.47 Years	$ 0.33
$0.75 - $0.76	728,490	8.92 Years	$ 0.75
$1.80	27,000	5.95 Years	$ 1.80

Stock-based compensation expense recognized for employees, directors and consultants for the years ended December 31, 2012 and 2011 and for the period from July 5, 2005 (inception) through December 31, 2012 was $332,347, $15,527 and $402,530, respectively, and is included in general and administrative expenses.

5. CONCENTRATIONS

Cash Concentration

The Company has historically maintained checking accounts at two financial institutions. These accounts 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.

6. COMMITMENTS AND CONTINGENCIES

Leases

The Company leases spaces for its offices pursuant to a non-cancelable operating lease that expired April 2013, with total future rents of $31,430 to be paid in 2013. During June 2013, the Company renewed this lease for two more years. The amended lease is non-cancelable and expires June 13, 2015. The Company also leases research facilities from Cedar-Sinai Medical Center, a shareholder of the Company, currently on a month-to-month basis.

Total rent expense to unrelated parties for the years ended December 31, 2012 and 2011 and for the period from July 5, 2005 (inception) through December 31, 2012 was $61,782, $0, and $61,782, respectively. Total rent expense to the related party for the years ended December 31, 2012 and 2011 and for the period from July 5, 2005 (inception) through December 31, 2012 was $54,648, $54,648, and $268,686, respectively.

See independent auditors' report.

6. COMMITMENTS AND CONTINGENCIES (Continued)

Royalty and Licensing Agreements

In June 2006, the Company entered into a License Agreement with Università Degli Studi Di Roma "La Sapienza" (the "University") for certain intellectual property rights. The Company paid the University a License Fee and there are ongoing Minimum Annual Royalties required to be paid under the License Agreement. The Company is also obligated to pay a percentage of all royalties received as a result of sublicenses granted.

In June 2006, the Company entered into a License Agreement with The Johns Hopkins University ("JHU") for certain intellectual property rights. Upon execution of the License Agreement, JHU was paid an initial license payment and thereafter, the Company is required to pay minimum annual royalties on the anniversary dates of the License Agreement. The minimum annual royalties are creditable against running royalties on net sales of products and net service revenues which the Company is also required to pay under the License Agreement. In addition, the Company is required to pay a certain percentage of consideration received by the Company from sublicenses granted and the Company is also required to pay JHU certain defined development milestone payments upon the successful completion of certain phases of the Company's clinical studies and upon receiving FDA approval. Milestone payments range from $100,000 at the time the phase I is complete to $1,000,000 if FDA approval has been received.

In April 2010, the Company entered into a License Agreement with Cedar-Sinai Medical Center ("CSMC"), a shareholder, for certain intellectual property rights. Upon execution of the License Agreement, Capricor was required to make an initial payment to CSMC and to reimburse CSMC for certain fees and costs incurred in connection with the prosecution of the patent rights. Under the terms of the License Agreement, the Company is required to pay a royalty on sales of royalty bearing products as well as a percentage of consideration received from any sublicenses or other grant of rights. Under the terms of the Licensing Agreement, the Company is also required to meet certain spending and development milestones. The Company discontinued its research under these patents in 2010.

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, 2012.

7. RELATED PARTY TRANSACTIONS

Lease and Sub-Lease Agreements

The Company leases its research facility from Cedar-Sinai Medical Center ("CSMC"), a shareholder. See note 6.

Beginning May 1, 2012 the Company subleases part of their office space to the chairman of the board for $2,500 per month. The sublease is month-to-month. The Company received $20,000, $0, and $20,000 in sublease income from the related party during the years ended December 31, 2012 and 2011, and for the period from July 5, 2005 (inception) through December 31, 2012, respectively. Sublease income is recorded as a reduction to general and administrative expenses.

Sub-Award Agreement

Effective January 30, 2012, the Company entered into a sub-award agreement with CSMC. The sub-award totaling $244,069, $10,811, and $254,880 were paid to CSMC during the years ended December 31, 2012 and 2011, and for the period from July 5, 2005 (inception) through December 31, 2012, respectively. At December 31, 2012 and 2011 the Company has sub-awards payable of $75,072 and $80,421, respectively.

See independent auditors' report.

7. RELATED PARTY TRANSACTIONS (Continued)

Equipment Purchases

The Company has paid for improvements and purchased equipment from CSMC. During the years December 31, 2012 and 2011, payments totaled $11,007 and $0, respectively.

Labor and Supply Costs

During the years ended December 31, 2012 and 2011, the Company has paid CSMC for costs relating to labor and supplies totaling $32,029 and $9,216, respectively.

Payables to Related Party

At December 31, 2012 and 2011, the Company had accounts payable and accrued expenses, which excludes the sub-award payable, to CSMC totaling $164,484 and $159,930, respectively.

8. SUBSEQUENT EVENTS

On February 5, 2013 the Company entered into a Loan Agreement with the California Institute for Regenerative Medicine ("CIRM") pursuant to which CIRM has agreed to disburse $19,782,136 to the Company over a period of 3.5 years to support Phase II of the Company's ALLSTAR clinical trial ("Allogeneic Cardiac-Derived Stem Cells for Patients Following a Myocardial Infarction").

Under the Loan Agreement, the Company 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 the Company is required to pay CIRM a premium up to 500% of the loan amount upon the achievement of achieving certain revenue thresholds. The loan has a term of 5 years and is extendable annually up to 10 years at Capricor's option if certain conditions are met. The interest rate for the initial term is set at the 1-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 period 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. Under the terms of the Loan Agreement, CIRM will deduct $36,667 from the initial disbursement to cover its costs in conducting financial due diligence on the Company. 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 the Company is not in default, the loan may be forgiven during the term of the project period if the Company abandons the trial due to the occurrence of a No Go Milestone. After the end of the project period, the loan may be forgiven if the Company abandons the project for any reason. The Company 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 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.

On June 13, 2013 the Company entered renewed their office lease for two years. Monthly lease payments are $16,620 for the first year and will increase to $17,285 per month during the second year of the lease.

The Company has evaluated events occurring after the date of the accompanying balance sheet through July 17, 2013, the date the financial statements were available to be issued. The Company did not identify any material subsequent events that require adjustment to or disclosure in the accompanying financial statements, except for the matters noted above.

See independent auditors' report.

FINANCIAL STATEMENTS
September 30, 2013
(unaudited)

CAPRICOR, INC.
(A DEVELOPMENT STAGE COMPANY)

CONTENTS

CAPRICOR, INC.
(A DEVELOPMNET STAGE COMPANY)
BALANCE SHEETS
SEPTEMBER 30, 2013 AND DECEMBER 31, 2012

	September 30, 2013 (Unaudited)	December 31, 2012
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 275,770	$ 170,106
Marketable securities	1,619,803	4,192,726
Restricted cash	3,067,799	-
Grants receivable	123,795	767,163
Interest receivable	3,427	25,215
Prepaid expenses and other current assets	21,239	38,042
TOTAL CURRENT ASSETS	5,111,833	5,193,252
PROPERTY AND EQUIPMENT, at cost		
Furniture and equipment	35,056	29,623
Laboratory equipment	115,766	68,878
	150,822	98,501
Less accumulated depreciation	(76,809)	(64,558)
NET PROPERTY AND EQUIPMENT	74,013	33,943
OTHER ASSETS		
Patents, net of accumulated amortization of $31,392 and $28,145 respectively	211,870	178,307
Loan fees, net of accumulated amortization of $4,889 and $0, respectively	31,778	-
Deposits	25,728	18,088
TOTAL ASSETS	$ 5,455,222	$ 5,423,590
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 718,088	$ 264,707
Accounts payable and accrued expenses, related party	201,864	164,484
Sub-award payable, related party	21,505	75,072
Accrued royalties	12,452	24,904
TOTAL CURRENT LIABILITIES	953,909	529,167
LONG-TERM LIABILITIES		
Loan payable	3,961,733	-
Accrued interest	33,275	-
TOTAL LONG TERM LIABILITIES	3,995,008	-
TOTAL LIABILITIES	4,948,917	529,167
SHAREHOLDERS' EQUITY		
Series A-1 Preferred stock, $0.001 par, 940,000 shares authorized, issued and outstanding	940	940
Series A-2 Preferred stock, $0.001 par, 736,844 shares authorized, issued and outstanding	737	737
Series A-3 Preferred stock, $0.001 par, 3,750,000 shares authorized, 1,500,000 shares issued and outstanding	1,500	1,500
Common stock, $0.001 par, 10,074,450 shares authorized, 1,812,078 shares issued and outstanding	1,812	1,812
Additional paid-in capital	12,297,843	12,120,051
Subscription receivable	-	(2,211)
Accumulated other comprehensive loss	(2,976)	(21,795)
Deficit accumulated during the development stage	(11,793,551)	(7,206,611)
TOTAL SHAREHOLDERS' EQUITY	506,305	4,894,423
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 5,455,222	$ 5,423,590

See accompanying notes to financial statements.

CAPRICOR, INC.
(A DEVELOPMENT STAGE COMPANY)
STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013 AND 2012 AND THE PERIOD
FROM JULY 5, 2005 (INCEPTION) THROUGH SEPTEMBER 30, 2013
(unaudited)

	Nine months ended September 30, 2013	Nine months ended September 30, 2012	July 5, 2005 (inception) through September 30, 2013
GRANT INCOME	$ 503,233	$ 1,321,456	$ 4,180,970
OPERATING EXPENSES			
Research and development	3,513,548	1,696,300	9,815,965
General and administrative	1,531,145	1,085,510	6,275,857
TOTAL OPERATING EXPENSES	5,044,693	2,781,810	16,091,822
LOSS FROM OPERATIONS	(4,541,460)	(1,460,354)	(11,910,852)
OTHER INCOME (EXPENSES)			
Investment income (expense)	(12,205)	9,012	150,576
Interest expense	(33,275)	-	(33,275)
TOTAL OTHER INCOME (EXPENSES)	(45,480)	9,012	117,301
NET LOSS	(4,586,940)	(1,451,342)	(11,793,551)
OTHER COMPREHENSIVE LOSS			
Net unrealized gain (loss) on marketable securities	18,819	(5,064)	(2,976)
COMPREHENSIVE LOSS	$ (4,568,121)	$ (1,456,406)	$ (11,796,527)
Net loss attributable to common stockholders per share, basic and diluted	$ (2.88)	$ (1.13)	
Weighted average number of shares, basic and diluted	1,812,078	1,812,078	

See accompanying notes to financial statements.

CAPRICOR, INC.
(A DEVELOPMENT STAGE COMPANY)
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIT)
FOR THE PERIOD FROM JULY 5, 2005 (INCEPTION) THROUGH SEPTEMBER 30, 2013
(unaudited)

	Series A-1 Preferred Stock		Series A-2 Preferred Stock		Series A-3 Preferred Stock		Common Stock		Additional	Subscription	Other Comprehensive	Deficit Accumulated During the Development	
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Paid-In Capital	Receivable	Loss	Stage	Total
Balance, July 5, 2005	-	$ -	-	$ -	-	$ -	-	$ -	$ -	$ -	$ -	$ -	$ -
Common stock issued to founders	-	-	-	-	-	-	1,800,000	1,800	-	(1,800)	-	-	-
Interest on subscription receivable	-	-	-	-	-	-	-	-	-	(36)	-	-	(36)
Net income	-	-	-	-	-	-	-	-	-	-	-	36	36
Balance, December 31, 2005	-	-	-	-	-	-	1,800,000	1,800	-	(1,836)	-	36	-
Series A-1 preferred stock issued for cash at $3.20 per share	940,000	940	-	-	-	-	-	-	3,007,060	-	-	-	3,008,000
Interest on subscription receivable	-	-	-	-	-	-	-	-	-	(86)	-	-	(86)
Net loss	-	-	-	-	-	-	-	-	-	-	-	(1,171,419)	(1,171,419)
Balance, December 31, 2006	940,000	940	-	-	-	-	1,800,000	1,800	3,007,060	(1,922)	-	(1,171,383)	1,836,495
Interest on subscription receivable	-	-	-	-	-	-	-	-	-	(71)	-	-	(71)
Stock-based compensation	-	-	-	-	-	-	-	-	5,820	-	-	-	5,820
Net loss	-	-	-	-	-	-	-	-	-	-	-	(979,076)	(979,076)
Balance, December 31, 2007	940,000	940	-	-	-	-	1,800,000	1,800	3,012,880	(1,993)	-	(2,150,459)	863,168
Common stock issued for services at $0.32 per share	-	-	-	-	-	-	12,078	12	3,846	-	-	-	3,858
Interest on subscription receivable	-	-	-	-	-	-	-	-	-	(37)	-	-	(37)
Stock-based compensation	-	-	-	-	-	-	-	-	16,422	-	-	-	16,422
Net loss	-	-	-	-	-	-	-	-	-	-	-	(630,859)	(630,859)
Balance, December 31, 2008	940,000	940	-	-	-	-	1,812,078	1,812	3,033,148	(2,030)	-	(2,781,318)	252,552

See accompanying notes to financial statements.

CAPRICOR, INC.
(A DEVELOPMENT STAGE COMPANY)
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIT) (CONTINUED)
FOR THE PERIOD FROM JULY 5, 2005 (INCEPTION) THROUGH SEPTEMBER 30, 2013
(unaudited)

	Series A-1 Preferred Stock		Series A-2 Preferred Stock		Series A-3 Preferred Stock		Common Stock		Additional	Subscription	Other Comprehensive	Deficit Accumulated During the Development	
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Paid-In Capital	Receivable	Loss	Stage	Total
Balance, December 31, 2008	940,000	940	-	-	-	-	1,812,078	1,812	3,033,148	(2,030)	-	(2,781,318)	252,552
Series A-2 preferred stock and warrants issued for cash at $3.80 per unit	-	-	210,528	210	-	-	-	-	799,797	-	-	-	800,007
Interest on subscription receivable	-	-	-	-	-	-	-	-	-	(69)	-	-	(69)
Stock-based compensation	-	-	-	-	-	-	-	-	8,251	-	-	-	8,251
Net loss	-	-	-	-	-	-	-	-	-	-	-	(148,970)	(148,970)
Balance, December 31, 2009	940,000	940	210,528	210	-	-	1,812,078	1,812	3,841,196	(2,099)	-	(2,930,288)	911,771
Series A-2 preferred stock issued for cash at $3.80 per share	-	-	526,316	527	-	-	-	-	1,999,473	-	-	-	2,000,000
Equity offering transaction costs	-	-	-	-	-	-	-	-	(91,155)	-	-	-	(91,155)
Interest on subscription receivable	-	-	-	-	-	-	-	-	-	(57)	-	-	(57)
Stock-based compensation	-	-	-	-	-	-	-	-	24,163	-	-	-	24,163
Net loss	-	-	-	-	-	-	-	-	-	-	-	(1,055,748)	(1,055,748)
Balance, December 31, 2010	940,000	940	736,844	737	-	-	1,812,078	1,812	5,773,677	(2,156)	-	(3,986,036)	1,788,974
Series A-3 preferred stock issued for cash at $4.00 per share	-	-	-	-	250,000	250	-	-	999,750	-	-	-	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, December 31, 2011	940,000	940	736,844	737	250,000	250	1,812,078	1,812	6,788,954	(2,185)	-	(5,135,356)	1,655,152

See accompanying notes to financial statements.

CAPRICOR, INC.
(A DEVELOPMENT STAGE COMPANY)
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIT) (CONTINUED)
FOR THE PERIOD FROM JULY 5, 2005 (INCEPTION) THROUGH SEPTEMBER 30, 2013
(unaudited)

	Series A-1 Preferred Stock		Series A-2 Preferred Stock		Series A-3 Preferred Stock		Common Stock		Additional	Subscription	Other Comprehensive	Deficit Accumulated During the Development	
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Paid-In Capital	Receivable	Loss	Stage	Total
Balance, December 31, 2011	940,000	940	736,844	737	250,000	250	1,812,078	1,812	6,788,954	(2,185)	-	(5,135,356)	1,655,152
Series A-3 preferred stock issued for cash at $4.00 per share	-	-	-	-	1,250,000	1,250	-	-	4,998,750	-	-	-	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, December 31, 2012	940,000	940	736,844	737	1,500,000	1,500	1,812,078	1,812	12,120,051	(2,211)	(21,795)	(7,206,611)	4,894,423
Interest on subscription receivable	-	-	-	-	-	-	-	-	-	(1)	-	-	(1)
Proceeds received from subscription receivable	-	-	-	-	-	-	-	-	-	2,212	-	-	2,212
Stock-based compensation	-	-	-	-	-	-	-	-	177,792	-	-	-	177,792
Unrealized loss on marketable securities	-	-	-	-	-	-	-	-	-	-	18,819	-	18,819
Net loss	-	-	-	-	-	-	-	-	-	-	-	(4,586,940)	(4,586,940)
Balance, September 30, 2013	940,000	$ 940	736,844	$ 737	1,500,000	$ 1,500	1,812,078	$ 1,812	$ 12,297,843	$ -	$ (2,976)	$ (11,793,551)	$ 506,305

See accompanying notes to financial statements.

CAPRICOR, INC.
(A DEVELOPMENT STAGE COMPANY)
STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013 AND 2012 AND THE PERIOD
FROM JULY 5, 2005 (INCEPTION) THROUGH SEPTEMBER 30, 2013
(unaudited)

	Nine months ended September 30, 2013	Nine months ended September 30, 2012	July 5, 2005 (inception) through September 30, 2013
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	$ (4,586,940)	$ (1,451,342)	$ (11,793,551)
Adjustments to reconcile net loss to net cash used in operating activities:			
Gain on sale of property and equipment	-	-	(3,707)
Depreciation and amortization	20,387	15,578	158,196
Common stock issued for services	-	-	3,858
Stock-based compensation	177,792	251,353	580,322
Change in assets - (increase) decrease:			
Restricted cash	(3,067,799)	-	(3,067,799)
Grants receivable	643,368	(283,542)	(123,795)
Interest receivable	21,788	(17,723)	(3,427)
Prepaid expenses and other current assets	16,803	(1,119)	(21,239)
Deposits	(7,640)	(8,980)	(25,728)
Change in liabilities - increase (decrease):			
Accounts payable and accrued expenses	453,780	77,361	718,076
Accounts payable and accrued expenses, related party	37,380	-	201,864
Sub-award payable, related party	(53,567)	(80,421)	21,505
Accrued royalties	(12,452)	(9,964)	12,452
Accrued interest	33,275	-	33,275
NET CASH USED IN OPERATING ACTIVITIES	(6,323,825)	(1,508,799)	(13,309,698)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payments for purchases of marketable securities	(226,998)	(4,455,941)	(4,441,519)
Proceeds from sales and maturities of marketable securities	2,818,740	-	2,818,740
Proceeds from sale of property and equipment	-	-	88,908
Payments for purchase of property and equipment	(52,321)	(11,972)	(281,129)
Payments for patents	(36,810)	(37,989)	(243,262)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	2,502,611	(4,505,902)	(2,058,262)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from sale of common stock	1,812	-	1,812
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
Costs related to the issuance of preferred stock and warrants	-	-	(91,155)
Proceeds from loan payable, net	3,925,066	-	3,925,066
NET CASH PROVIDED BY FINANCING ACTIVITIES	3,926,878	5,000,000	15,643,730
NET INCREASE IN CASH AND CASH EQUIVALENTS	105,664	(1,014,701)	275,770
Cash and cash equivalents balance at beginning of period	170,106	1,550,248	-
Cash and cash equivalents balance at end of period	$ 275,770	$ 535,547	$ 275,770

See accompanying notes to financial statements.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Interim Financial Statements

The unaudited financial statements of Capricor, Inc. ("Capricor", or the "Company"), a development stage company, have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information. Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in the United States for annual financial statements. However, the information included in these interim condensed consolidated financial statements reflects all adjustments (consisting solely of normal recurring adjustments) which are, in the opinion of management, necessary for the fair presentation of the financial position and the results of operations. Results shown for interim periods are not necessarily indicative of the results to be obtained for a full year. The balance sheet information as of December 31, 2012 was derived from the audited financial statements. These interim financial statements should be read in conjunction with that report.

Business Activity

The Company was incorporated on July 5, 2005 in the State of Delaware. The Company develops products for the treatment of cardiovascular disease. Capricor's lead product candidate, a stem cell treatment for heart disease following a myocardial infarction, is currently in the development stage.

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"), Nile's wholly-owned subsidiary, Bovet Merger Corp., a Delaware corporation ("Merger Sub"), and the Company, Merger Sub merged with and into the Company and the Company 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, (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.

Immediately prior to the consummation of the Merger, each outstanding share of the Company's Series A-1, Series A-2 and Series A-3 Preferred Stock was converted into one share of the Company's 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 Capricor Therapeutics common stock, on a post 1-for-50 reverse stock split basis. Due to the Merger, former Capricor stockholders now own 90% of the outstanding common stock of Capricor Therapeutics, and Nile stockholders own 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).

After the Effective Time, each then outstanding Capricor stock option, whether vested or unvested, was assumed by Nile in accordance with the terms (as in effect as of the date thereof) of the Capricor 2006 Stock Option Plan, 2012 Equity Incentive Plan or 2012 Non-Employee Director Stock Option Plan, as applicable, and the Stock Option Agreement under which 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.

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

Development Stage Activities

Since inception, the Company has not generated revenues other than revenues from various government research grants. All of the operating results and cash flows reported in the accompanying financial statements from July 5, 2005 (inception) through September 30, 2013 are considered to be those related to the development stage activities and represent the 'cumulative from inception' amounts required to be reported pursuant to the accounting standards for Development Stage Companies.

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.

Government Research Grants

Government research grants that provide for payments to the Company for work performed are recognized as income when the related expenses are incurred, when applicable.

Restricted Cash

As of September 30, 2013, restricted cash represents funds received under the Company's Loan Agreement with the California Institute for Regenerative Medicine ("CIRM") (see note 2), for which certain milestones have not been met. If such milestones are met, these funds will become unrestricted, and shall be eligible to be spent and attributed to certain expenses under the terms and conditions of the CIRM Loan Agreement.

Marketable Securities

At September 30, 2013 and December 31, 2012, 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 $3,246, $3,246 and $ 296,113 for the nine months ended September 30, 2013 and 2012 and for the period from July 5, 2005 (inception) through September 30, 2013, respectively. Future amortization expense for the next five years is estimated to be $4,330 per year. At September 30, 2013, the Company had $178,313 attributable to pending patents for which amortization has not begun.

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.

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

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 $3,513,548, $1,696,300 and $9,815,965 for the nine months ended September 30, 2013 and 2012 and for the period from July 5, 2005 (inception) through September 30, 2013, respectively.

Comprehensive Income

Comprehensive income generally represents all changes in stockholders' equity during the period except those resulting from investments by, or distributions to, stockholders. For the nine months ended September 30, 2013 and 2012 and for the period from July 5, 2005 (inception) through September 30, 2013, the Company incurred a comprehensive (gain) loss of ($18,819), $5,064, and $2,976, respectively, 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 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.

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 uses 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, warrants issued to third parties, and convertible preferred stock, have been excluded from the diluted loss per share calculation because their effect is anti-dilutive.

The following is a schedule of losses attributable to common stockholders for the nine months ended September 30, 2013 and 2012:

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

	For the Nine Months Ended September 30,	
	2013	2012
Net loss	$ (4,586,940)	$ (1,451,342)
Less: Preferred stock dividends	(628,528)	(595,032)
Net loss attributable to common stockholders	$ (5,215,468)	$ (2,046,374)

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 September 30, 2013 for assets and liabilities measured at fair value on a recurring basis:

	September 30, 2013			
	Level I	Level II	Level III	Total
Marketable securities	$ 1,619,803	$ -	$ -	$ 1,619,803

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.

Liquidity

The Company has historically financed its operations from equity financings. Since 2005, the Company 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. The Company expects to continue to require external cash investments in 2013 and beyond to continue its operations and development activities.

The accompanying financial statements have been prepared on a going concern basis of accounting, which contemplates continuity of operations, realization of assets and classification of liabilities and commitments in the normal course of business. The Company has generated losses and negative cash flows from operations.

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

These factors, among others, raise substantial doubt about the Company's ability to continue as a going concern. Management is evaluating its options to respond to the cash needs of the Company. The Company anticipates that additional equity financings, asset sales, and/or licensing arrangements, co-development arrangements, and the further pursuit of additional grant opportunities will be necessary to continue to fund operations in the future. Should management fail to adequately address the issue, the Company may have to reduce its business activities or curtail its operations. The accompanying financial statements do not reflect any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classifications of liabilities that might result if the Company is unable to continue as a going concern.

2. LOAN PAYABLE

On February 5, 2013 the Company entered into a Loan Agreement with CIRM (the "CIRM Loan Agreement") pursuant to which CIRM has agreed to disburse $19,782,136 to the Company over a period of three and one-half years to support Phase II of the Company's ALLSTAR clinical trial ("Allogeneic Cardiac-Derived Stem Cells for Patients Following a Myocardial Infarction").

Under the CIRM Loan Agreement, the Company 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 the Company is required to pay CIRM a premium 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 1-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 period 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 (as defined in the CIRM Loan Agreement) occurs or if other milestones or conditions are not met. Under the terms of the CIRM Loan Agreement, CIRM will deduct $36,667 from the initial disbursement to cover its costs in conducting financial due diligence on the Company. 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 the Company is not in default, the loan may be forgiven during the term of the project period if the Company abandons the trial due to the occurrence of a No Go Milestone. After the end of the project period, under certain conditions, the loan may be forgiven if the Company elects to abandon the project.

The Company will 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 September 30, 2013, $36,667 of loan costs were capitalized with $4,889 and $4,889 expensed for the nine months ended September 30, 2013 and the period from July 5, 2005 (inception) through September 30, 2013, respectively, with the balance of $31,778 to be amortized over the next 4.4 years.

The timing of the distribution of funds pursuant to the CIRM Loan Agreement is 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.

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

On July 8, 2013, the Company received its second disbursement under the loan award for $3,067,799. This disbursement will carry interest at the initial rate of 2.45%. The principle disbursed under the second disbursement is currently being recorded as restricted cash, as the Company must meet a certain milestone in order to expend the remaining disbursements under the terms of the award. If this milestone is met, the Company will then record this restricted cash as unrestricted and a component of cash and cash equivalents.

2. LOAN PAYABLE (Continued)

For the nine months ended September 30, 2013 and for the period from July 5, 2005 (inception) through September 30, 2013, interest expense under the CIRM loan was $33,275 and $33,275, respectively.

3. CONVERTIBLE PREFERRED STOCK

The Company is authorized to issue 5,426,844 shares of convertible preferred stock ("Preferred Stock"), which is allocated as follows; Series A-1: 940,000 shares; Series A-2: 736,844 shares; and Series A-3: 3,750,000 shares; of which 1,500,000 shares have been issued.

The Preferred Stock accrues cumulative annual dividends and is compounded annually at the rate of 6% of the applicable Series A Purchase Price per share. The dividends shall be payable only if, as and when determined by the Company's Board of Directors. Each series of preferred stock ranks pari-pasu with each other series of preferred stock, and senior to the common stock of the Company, as to dividends, and upon liquidation, dissolution or a winding up of the Company. In the event of a "Liquidation Event" as such term is defined in the Company's Fourth Amended and Restated Certificate of Incorporation, before any assets shall be distributed to the holders of common stock, the holders of Preferred Stock shall be entitled to be paid out of the assets available for distribution an amount equal to the applicable Series A Purchase Price plus all accrued and unpaid dividends. Upon conversion of the Preferred Stock, all accrued dividends shall be cancelled. No distribution will be made with respect to common stock until all declared or accrued but unpaid dividends on preferred stock have been paid or set aside for payment. Cumulative dividends as of September 30, 2013 amounted to $2,826,215.

At September 30, 2013, the Preferred Stock has an aggregate liquidation preference of approximately $14,634,000, which includes cumulative dividends. Holders of the Preferred Stock, at their option, may convert their shares into shares of common stock at a ratio of one to one.

Holders of Preferred Stock are entitled to cast the number of votes equal to the number of common shares into which the shares of Preferred Stock held by such holders are convertible as of the record date. The holders of Preferred Stock vote together with the holders of common stock as a single class, except as otherwise specifically required.

Series A-1 Financing

During 2006, the Company issued 940,000 shares of Series A-1 convertible preferred stock, respectively, with a par value of $0.001 per share, for cash proceeds of $3,009,800.

Series A-2 Financing

During 2008 and 2009, the Company issued 736,844 shares of Series A-2 convertible preferred stock, with a par value of $0.001 per share, for cash proceeds of $2,800,000.

Series A-3 Financing

During 2011 and 2012, the Company issued 1,500,000 shares of Series A-3 convertible preferred stock, with a par value of $0.001 per share, for cash proceeds of $6,000,000.

Immediately prior to the Effective Time of the Merger and in connection therewith, each issued and outstanding share of Capricor (i) Series A-1 Preferred Stock, (ii) Series A-2 Preferred Stock, and (iii) Series A-3 Preferred Stock converted into one share of Capricor common stock.

4. STOCK OPTIONS AND WARRANTS

Warrants

During the year ended December 31, 2009, the Company issued warrants to purchase shares of common stock in conjunction with the issuance of the Series A-2 Preferred Stock. As of September 30, 2013, the Company has 835,528 warrants outstanding with an exercise price of $7.00 per share.

4. STOCK OPTIONS AND WARRANTS (Continued)

These warrants expire December 31, 2014, unless terminated earlier pursuant to the terms of the warrant agreements.

Stock Options

The Company's Board of Directors has approved three stock option plans: (i) the 2006 Stock Option Plan, (ii) the 2012 Restated and Amended Equity Incentive Plan (which has superseded the 2006 Stock Option Plan) (the "2012 Plan"), and (iii) the 2012 Non-Employee Director Stock Option Plan (the "2012 Non-Employee Director Plan").

The 2012 Plan reserves 2,000,000 shares for the grant of stock options, stock appreciation rights, restricted stock awards and performance unit/share awards by the Board of Directors to employees, consultants and other service providers. Included in the 2012 Plan is the 1,000,000 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.

The 2012 Non-Employee Director Plan reserved 1,300,000 shares for the grant of stock options to members of the Board of Directors, who are not employees of the Company.

Under both plans, the exercise price of stock options may not be less than the fair market value of the Company's common stock at the date of the grant as determined by the Company's Board of Directors. The vesting terms of options issued under the plans range from immediate vesting up to ratable vesting on the anniversary date of the grant over five years. The Board of Directors determines the price, terms, vesting and any other conditions of each grant. All options expire ten years after the date of grant.

As of September 30, 2013, there were options granted and outstanding to purchase 2,279,847 shares of the Company's common stock under the plans to employees and non-employees. During the nine months ended September 30, 2013 and 2012, 506,312 and 1,280,290 options, respectively, were granted to employees and non-employees under the plans.

The following is a schedule summarizing stock option activity for the nine months ended September 30, 2013:

	Number of Options	Weighted-Average Exercise Price
Outstanding at January 1, 2013	1,773,535	$ 0.76
Granted	506,312	0.64
Exercised	-	-
Outstanding at September 30, 2013	2,279,847	$ 0.73
Exercisable at September 30, 2013	1,103,897	$ 0.76

For the options granted during the nine months ended September 30, 2013 and 2012, the estimated weighted average fair value of the stock options ranged from $0.48 to $0.61 and $0.56 to $0.62 per share, respectively, and was calculated using the Black-Scholes pricing model based on the following assumptions:

4. STOCK OPTIONS AND WARRANTS (Continued)

	September 30, 2013	September 30, 2012
Risk-free interest rate	0.77% - 1.39%	0.82% - 1.34%
Volatility	100%	100%
Term	6 - 7 years	5 - 7 years
Dividend yield	0%	0%

As of September 30, 2013, the total unrecognized fair value compensation cost related to non-vested stock options was $659,614 which is expected to be recognized over 3.7 years.

Information about stock options outstanding at September 30, 2013 is summarized below:

Stock Options Outstanding

Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
$0.32 - $0.38	48,500	5.05 Years	$ 0.34
$0.61	404,932	9.64 Years	$ 0.61
$0.75 - $0.76	1,799,415	7.89 Years	$ 0.75
$1.80	27,000	5.25 Years	$ 1.80

Stock Options Exercisable

Exercise Price	Number Exercisable	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
$0.32 - $0.38	42,500	4.80 Years	$ 0.34
$0.61	2,778	9.90 Years	$ 0.61
$0.75 - $0.76	1,031,619	8.30 Years	$ 0.75
$1.80	27,000	5.20 Years	$ 1.80

Stock-based compensation expense recognized for employees, directors and consultants for the nine months ended September 30, 2013 and 2012 and for the period from July 5, 2005 (inception) through September 30, 2013 was $177,792, $251,353 and $580,322, respectively, and is included in general and administrative expenses.

5. CONCENTRATIONS

Cash Concentration

The Company has historically maintained checking accounts at one financial institution. 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.

6. COMMITMENTS AND CONTINGENCIES

Leases

The Company 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. The Company 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 nine months ended September 30, 2013 and 2012 and for the period from July 5, 2005 (inception) through September 30, 2013 was $104,676, $50,288 and $166,458, respectively. Total rent expense to the related party for the nine months ended September 30, 2013 and 2012 and for the period from July 5, 2005 (inception) through September 30, 2013 was $40,986, $40,986, and $309,672, respectively.

7. LICENSE AGREEMENTS

The University of Rome License Agreement

In June 2006, the Company entered into a License Agreement with Università Degli Studi Di Roma “La Sapienza” (“University of Rome”) for certain intellectual property rights. The Company paid the University of Rome a license fee and there are ongoing minimum annual royalties required to be paid under the license Agreement. The Company is also obligated to pay a percentage of all royalties received as a result of sublicenses granted.

The Johns Hopkins University License Agreement

In June 2006, the Company entered into a License Agreement with The Johns Hopkins University (“JHU”) for certain intellectual property rights (the “JHU License Agreement”). Upon execution of the JHU License Agreement, JHU was paid an initial license payment and, thereafter, the Company 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 the Company is also required to pay under the JHU License Agreement. In addition, the Company is required to pay a certain percentage of consideration received by the Company from sublicenses granted and the Company is also required to pay JHU certain defined development milestone payments upon the successful completion of certain phases of the Company’s clinical studies and upon receiving FDA approval. Milestone payments range from $100,000 at the time Phase I is fully complete to $1,000,000 if FDA approval has been received.

The Cedars-Sinai Medical Center License Agreement

In April 2010, the Company entered into a License Agreement with Cedars-Sinai Medical Center (“CSMC”), a shareholder, for certain intellectual property rights (the “CSMC License Agreement”). Upon execution of the CSMC License Agreement, Capricor was required to make an initial payment to CSMC and to reimburse CSMC for certain fees and costs incurred in connection with the prosecution of the patent rights. Under the terms of the CSMC License Agreement, the Company is required to pay a royalty on sales of royalty bearing products as well as a percentage of consideration received from any sublicenses or other grant of rights. Under the terms of the CSMC License Agreement, the Company is also required to meet certain spending and development milestones. In 2010, Capricor discontinued its research under some of the patents. In 2013, the CSMC License Agreement was amended resulting in a reduction in the percentage of sublicense fees which will be payable to CSMC.

8. RELATED PARTY TRANSACTIONS

Lease and Sub-Lease Agreements

The Company leases space for its research facilities from CSMC, a shareholder. See note 6.

8. RELATED PARTY TRANSACTIONS (Continued)

Beginning May 1, 2012, pursuant to a sublease agreement, the Company subleased part of its office space to Frank Litvack, the Company's Executive Chairman, for $2,500 per month. On April 1, 2013 the Company entered into a sublease with Reprise Medical Technologies, LLC, an entity owned by Mr. Litvack, for $2,500 per month. The sublease is on a month-to-month basis. The Company recognized $22,500, $0, and $42,500 in sublease income from the related party during the nine months ended September 30, 2013 and 2012, and for the period from July 5, 2005 (inception) through September 30, 2013, respectively. Sublease income is recorded as a reduction to general and administrative expenses.

Sub-Award Agreement

Effective January 30, 2012, the Company entered into a sub-award agreement with CSMC. Sub-award payments totaling $227,514, $183,654 and $481,150 were paid to CSMC during the nine months ended September 30, 2013 and 2012, and for the period from July 5, 2005 (inception) through September 30, 2013, respectively. At September 30, 2013, the Company had sub-awards payable of $21,505.

Labor and Supply Costs

During the nine months ended September 30, 2013 and 2012, and for the period from July 5, 2005 (inception) through September 30, 2013, the Company paid CSMC for costs relating to labor and supplies totaling $8,401, $32,029 and $49,646, respectively.

Payables to Related Party

At September 30, 2013 and December 31, 2012, the Company had accounts payable and accrued expenses, which excludes the sub-award payable, to CSMC totaling $201,864 and $164,484, respectively.

9. SUBSEQUENT EVENTS

New Grant Awarded

On August 21, 2013, the Company was approved for a Phase IIB grant through the NIH Small Business Innovation Research program for continued development of the Company's CAP-1002 product. Under the terms of the grant, approximately $2,879,437 will be disbursed over 3 years subject to annual and quarterly reporting requirements.

Collaboration Agreement and Exclusive License Option with Janssen Biotech, Inc.

On December 27, 2013, Capricor entered into a Collaboration Agreement and License Option with Janssen Biotech, Inc. 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. Under the agreement, Capricor was paid $12.5 million, and Capricor will also 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 sixty 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 commercial sales of licensed products.

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

On November 20, 2013, pursuant to that certain Agreement and Plan of Merger and Reorganization (the "Merger Agreement"), 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 (the "First Amendment"), by and among Nile Therapeutics, Inc. ("Nile"), Bovet Merger Corp., a Delaware corporation and a wholly-owned subsidiary of Nile ("Merger Sub"), and Capricor, Inc., a privately-held company incorporated in Delaware ("Capricor"), Merger Sub merged with and into Capricor and Capricor became a wholly-owned subsidiary of Nile (the "Merger"). Immediately prior to the Merger and in connection therewith, Nile filed certain amendments to its certificate of incorporation (the "Charter Amendments") which: (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." (the "Name Change"), 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 (the "Share Reduction"). Unless the context otherwise requires, in the discussion set forth in this Current Report on Form 8-K, all references herein to "Capricor Therapeutics" refer to the registrant (and its wholly-owned subsidiary) following the Name Change and completion of the Merger, and all references to "Nile" refer to Nile Therapeutics, Inc., prior to the Name Change and completion of the Merger.

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 Capricor Therapeutics common stock, on a post 1-for-50 reverse stock split basis. Each option to purchase Capricor common stock outstanding at the effective time of the Merger was assumed by Capricor Therapeutics at the effective time of the Merger, with each share of Capricor common stock underlying such options being converted into the right to receive approximately 2.07 shares of Capricor Therapeutics common stock, on a post 1-for-50 reverse stock split basis, rounded down to the nearest whole number of shares of Capricor Therapeutics common stock.

Due to the 1-for-50 Reverse Stock Split, each share of Nile common stock, and each warrant and option exercisable for Nile common stock, was similarly affected by the 1-for-50 Reverse Stock Split. As a result of the Merger, former Capricor stockholders now own 90% of the outstanding common stock of Capricor Therapeutics, and Nile stockholders own 10% of the outstanding common stock of Capricor Therapeutics, in each case on a fully-diluted basis.

As of November 20, 2013, immediately following the consummation of the Merger, including all issuances contemplated therein there were approximately 11,687,430 shares of Capricor Therapeutics common stock issued and outstanding and options and warrants exercisable for a total of approximately 5,220,801 shares of Capricor Therapeutics common stock, in each case on a post-Merger, post-Reverse Stock Split basis. All historical per share amounts have been adjusted to reflect the Reverse Stock Split.

The unaudited pro forma condensed combined balance sheet combines the historical consolidated balance sheets of Nile and Capricor, giving effect to the Merger as if it had been consummated on September 30, 2013. The unaudited pro forma condensed combined statements of operations for the nine months ended September 30, 2013 and for the year ended December 31, 2012 combine the historical consolidated statements of operations of Nile and Capricor, giving effect to the Merger as if it had been consummated on January 1, 2012, the beginning of the earliest period presented.

Certain assumptions, reclassifications and adjustments are described in the accompanying notes to these unaudited pro forma condensed combined financial statements.

These unaudited pro forma condensed combined financial statements have been developed from and should be read in conjunction with (1) the unaudited interim financial statements of Nile contained in its Quarterly Reports on Form 10-Q for the quarterly period ended September 30, 2013, (2) the audited financial statements of Nile contained in its Annual Report on Form 10-K for the fiscal year ended December 31, 2012, (3) the unaudited interim financial statements of Capricor for the quarterly period ended September 30, 2013, and (4) the audited financial statements of Capricor for the fiscal year ended December 31, 2012. The unaudited pro forma condensed combined financial statements are provided for illustrative purposes only and do not purport to represent what the actual consolidated results of operations or the consolidated financial position of Capricor would have been had the merger occurred on the dates assumed, nor are they necessarily indicative of future consolidated results of operations or consolidated financial position.

As a result of the planned Merger, the Company will incur significant additional costs as Capricor's staff replaces Nile's staff and Capricor's business plans are implemented and products continue to be developed. The unaudited pro forma condensed combined financial information does not reflect any operating efficiencies and/or cost savings that Capricor may achieve with respect to the combined companies.

UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET
September 30, 2013

	Historical		Pro Forma	Condensed Combined
	Capricor	Nile	Adjustments	Pro Forma
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	$ 275,770	$ 71,028	$ -	$ 346,798
Marketable securities	1,619,803	-	-	1,619,803
Restricted cash	3,067,799	-	-	3,067,799
Grants receivable	123,795	-	-	123,795
Interest receivable	3,427	-	-	3,427
Prepaid expenses and other current assets	21,239	37,975	-	59,214
TOTAL CURRENT ASSETS	5,111,833	109,003	-	5,220,836
PROPERTY AND EQUIPMENT, at cost				
Furniture and equipment	35,056	6,576	-	41,632
Laboratory equipment	115,766	-	-	115,766
	150,822	6,576	-	157,398
Less accumulated depreciation	(76,809)	(5,748)	-	(82,557)
NET PROPERTY AND EQUIPMENT	74,013	828	-	74,841
OTHER ASSETS				
Patents, net of accumulated amortization of $31,392	211,870	-	-	211,870
Loan fees, net of accumulated amortization of $4,889	31,778	-	-	31,778
Deposits	25,728	4,535		30,263
Intangibles	-	-	600,000 **a**	600,000
TOTAL ASSETS	$ 5,455,222	$ 114,366	$ 600,000	$ 6,169,588
LIABILITIES AND SHAREHOLDERS' EQUITY				
CURRENT LIABILITIES				
Accounts payable and accrued expenses	$ 718,088	$ 837,131	$ (492,887) **b**	$ 1,062,332
Notes payable, net of unamortized discount of $123,204	-	326,796	(326,796) **c**	-
Accounts payable and accrued expenses, related party	201,864	18,000	-	219,864
Sub-award payable, related party	21,505	-	-	21,505
Accrued royalties	12,452	-	-	12,452
TOTAL CURRENT LIABILITIES	953,909	1,181,927	(819,683)	1,316,153
LONG TERM LIABILITIES				
Warrant liability	-	499,993	(393,200) **d**	106,793
Loan payable	3,961,733	-		3,961,733
Accrued interest	33,275	-	-	33,275
TOTAL LONG TERM LIABILITIES	3,995,008	499,993	(393,200)	4,101,801
TOTAL LIABILITIES	4,948,917	1,681,920	(1,212,883)	5,417,954
SHAREHOLDERS' EQUITY (DEFICIT)				
Preferred stock	3,177	-	(3,177) **e**	-
Common stock	1,812	43,521	(33,646) **e, f**	11,687
Additional paid-in capital	12,297,843	46,525,778	(46,287,147) **g**	12,536,474
Accumulated other comprehensive loss	(2,976)	-	-	(2,976)
Deficit accumulated during the development stage	(11,793,551)	(48,136,853)	48,136,853 **h**	(11,793,551)
TOTAL SHAREHOLDERS' EQUITY (DEFICIT)	506,305	(1,567,554)	1,812,883	751,634
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 5,455,222	$ 114,366	$ 600,000	$ 6,169,588

See accompanying notes to unaudited pro forma condensed combined financial information

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
For the Nine Months Ended September 30, 2013

	Historical		Pro Forma	Condensed Combined
	Capricor	Nile	Adjustments	Pro Forma
INCOME				
Grant income	$ 503,233	$ -	$ -	$ 503,233
Collaboration income	-	-	-	-
TOTAL INCOME	503,233	-	-	503,233
OPERATING EXPENSES				
Research and development	3,513,548	130,002	-	3,643,550
General and administrative	1,531,145	908,178	(628,934) **i, j**	1,810,389
TOTAL OPERATING EXPENSES	5,044,693	1,038,180	(628,934)	5,453,939
LOSS FROM OPERATIONS	(4,541,460)	(1,038,180)	628,934	(4,950,706)
OTHER INCOME (EXPENSES)				
Investment income	(12,205)	200	-	(12,005)
Interest expense	(33,275)	(155,345)	(123,204) **k**	(311,824)
Other income (expense)	-	(235,511)	189,800 **l**	(45,711)
TOTAL OTHER INCOME (EXPENSES)	(45,480)	(390,656)	66,596	(369,540)
NET LOSS	(4,586,940)	(1,428,836)	695,530	(5,320,246)
OTHER COMPREHENSIVE LOSS				
Net unrealized gain on marketable securities	18,819	-	-	18,819
COMPREHENSIVE LOSS	$ (4,568,121)	$ (1,428,836)	$ 695,530	$ (5,301,427)

See accompanying notes to unaudited pro forma condensed combined financial information

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
For the Year Ended December 31, 2012

	Historical		Pro Forma	Condensed Combined
	Capricor	Nile	Adjustments	Pro Forma
INCOME				
Grant income	$ 1,898,764	$ -	$ -	$ 1,898,764
Collaboration income	-	195,500	-	195,500
TOTAL INCOME	1,898,764	195,500	-	2,094,264
OPERATING EXPENSES				
Research and development	2,634,222	1,023,929	-	3,658,151
General and administrative	1,364,582	1,611,711	(56,428) **m**	2,919,865
TOTAL OPERATING EXPENSES	3,998,804	2,635,640	(56,428)	6,578,016
LOSS FROM OPERATIONS	(2,100,040)	(2,440,140)	56,428	(4,483,752)
OTHER INCOME (EXPENSES)				
Investment income	28,785	1,227	-	30,012
Interest expense	-	-	-	-
Other income (expense)	-	545,876	(1,136,353) **n**	(590,477)
TOTAL OTHER INCOME (EXPENSES)	28,785	547,103	(1,136,353)	(560,465)
NET LOSS	(2,071,255)	(1,893,037)	(1,079,925)	(5,044,217)
OTHER COMPREHENSIVE LOSS				
Net unrealized loss on marketable securities	(21,795)	-	-	(21,795)
COMPREHENSIVE LOSS	$ (2,093,050)	$ (1,893,037)	$ (1,079,925)	$ (5,066,012)

See accompanying notes to unaudited pro forma condensed combined financial information

NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

1. Description of Transaction

On November 20, 2013, pursuant to that certain Agreement and Plan of Merger and Reorganization (the "Merger Agreement"), 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 (the "First Amendment"), by and among Nile Therapeutics, Inc. ("Nile"), Bovet Merger Corp., a Delaware corporation and a wholly-owned subsidiary of Nile ("Merger Sub"), and Capricor, Inc., a privately-held company incorporated in Delaware ("Capricor"), Merger Sub merged with and into Capricor and Capricor became a wholly-owned subsidiary of Nile (the "Merger"). Immediately prior to the Merger and in connection therewith, Nile filed certain amendments to its certificate of incorporation (the "Charter Amendments") which: (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." (the "Name Change"), 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 (the "Share Reduction"). Unless the context otherwise requires, in the discussion set forth in this Current Report on Form 8-K, all references herein to "Capricor Therapeutics" refer to the registrant (and its wholly-owned subsidiary) following the Name Change and completion of the Merger, and all references to "Nile" refer to Nile Therapeutics, Inc., prior to the Name Change and completion of the Merger.

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 Capricor Therapeutics common stock, on a post 1-for-50 reverse stock split basis. Each option to purchase Capricor common stock outstanding at the effective time of the Merger was assumed by Capricor Therapeutics at the effective time of the Merger, with each share of Capricor common stock underlying such options being converted into the right to receive approximately 2.07 shares of Capricor Therapeutics common stock, on a post 1-for-50 reverse stock split basis, rounded down to the nearest whole number of shares of Capricor Therapeutics common stock. Following the Merger, each assumed Capricor option has a per share exercise price for Capricor Therapeutics common stock equal to the quotient obtained by dividing the exercise price per share of Capricor common stock subject to such option by approximately 2.07 and rounding the resulting exercise price up to the nearest whole cent.

Due to the 1-for-50 Reverse Stock Split, each share of Nile common stock, and each warrant and option exercisable for Nile common stock, was similarly affected by the 1-for-50 Reverse Stock Split. As a result of the Merger, former Capricor stockholders now own 90% of the outstanding common stock of Capricor Therapeutics, and Nile stockholders own 10% of the outstanding common stock of Capricor Therapeutics, in each case on a fully-diluted basis.

As of November 20, 2013, immediately following the consummation of the Merger, including all issuances contemplated therein there were approximately 11,687,430 shares of Capricor Therapeutics common stock issued and outstanding and options and warrants exercisable for a total of approximately 5,220,801 shares of Capricor Therapeutics common stock, in each case on a post-Merger, post-Reverse Stock Split basis. All historical per share amounts have been adjusted to reflect the Reverse Stock Split.

2. Basis of Presentation

The unaudited pro forma condensed combined balance sheet as of September 30, 2013, and the unaudited pro forma condensed combined statements of operations for the nine months ended September 30, 2013, and for the year ended December 31, 2012, are based on the historical financial statements of Nile and Capricor and the assumptions, reclassifications and adjustments described in the accompanying notes to the unaudited pro forma condensed combined financial information.

The Company accounts for business combinations pursuant to Financial Accounting Standards Board ("FASB") Accounting Standards Codification (ASC) 805,*Business Combinations*. In accordance with ASC 805, Capricor uses its best estimates and assumptions to accurately assign fair value to the tangible and intangible assets acquired and liabilities assumed at the acquisition date. Goodwill as of the acquisition date is measured as the excess of purchase consideration over the fair value of net tangible and identifiable intangible assets acquired.

At the completion of the Merger, the former Capricor stockholders will hold 90% of the outstanding shares of the post-Merger Capricor Therapeutic's common stock on a fully-diluted basis. Accordingly, the Merger represents a change in control. For accounting purposes, the Merger has been accounted for as an acquisition of Nile and a recapitalization of Capricor, with Capricor as the accounting acquirer (legal acquiree) and Nile as the accounting acquiree (legal acquiror).

The fair values assigned to Nile's tangible and intangible assets acquired and liabilities assumed are based on Capricor's estimates and assumptions. The estimated fair values of these assets acquired and liabilities assumed are considered preliminary and are based on the information that was available as of the date of this report. Capricor believes that the information provides a reasonable basis for estimating the fair values of assets acquired and liabilities assumed.

The unaudited pro forma condensed combined financial information is not intended to represent or be indicative of Capricor's consolidated results of operations or financial position that would have been reported had the Merger been completed as of the dates presented, and should not be taken as a representation of Capricor's future results of operations or financial position. The unaudited pro forma condensed combined financial information does not reflect any operating efficiencies and/or cost savings that Capricor may achieve with respect to the merged companies.

The unaudited pro forma condensed combined financial information should be read in conjunction with Nile's historical consolidated financial statements and accompanying notes included in its Annual Report on Form 10-K for the fiscal year ended December 31, 2012 and Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2013 and Capricor's historical financial statements and accompanying notes for the year ended December 31, 2012 and the nine months ended September 30, 2013, which are included in Exhibit 99.1 and 99.2 attached hereto.

Accounting Periods Presented

The unaudited pro forma condensed combined balance sheet as of September 30, 2013 is presented as if the Merger had occurred on September 30, 2013.

The unaudited pro forma condensed combined statements of operations of Capricor and Nile for the nine months ended September 30, 2013 and for the year ended December 31, 2012 are presented as if the merger had taken place on January 1, 2012.

Reclassifications

The following reclassifications have been made to the presentation of the Company's historical financial statements in order to conform to Capricor's presentation:

- The Company's accrued expenses and other current liabilities balance of $497,886 has been reclassified to accounts payable and accrued expenses as of September 30, 2013.

Adjustments to Unaudited Pro Forma Condensed Combined Balance Sheets reflect the following adjustments:

(a) Intangibles. Reflects estimated value of Nile's licensed technologies, primarily cenderitide.

(b) Accounts payable and accrued expenses. Reflects the elimination of Nile's deferred compensation liability related to its Chief Executive Officer and Chief Financial Officer of $310,354 and $182,533, respectively.

(c) Notes payable. Reflects the conversion of all notes payable of $450,000 at the time of the Merger. Pursuant to the Merger Agreement, this note payable will convert into Nile's common shares at a conversion price per share equal to the volume weighted average price of the Company's common stock from July 8, 2013 through September 30, 2013.

(d) Warrant Liability. Reflects purchase accounting adjustment to eliminate the warrant liability of $393,200 related to warrants issued in connection with the conversion of notes payable. Upon the conversion of the notes payable, Nile will issue a specified number of warrants equal to the note proceeds payable balance divided by a conversion price equal to the volume weighted average price of Nile's common stock from July 8, 2013 to September 30, 2013. This effectively results in a reclassification from liabilities to equity.

(e) Preferred Stock. Reflects the assumed conversion of each outstanding share of Capricor's Series A-1, A-2 and A-3 Preferred Stock into one share of Capricor's common stock.

(f) Common Stock. Reflects the elimination of all of Capricor's common stock and the issuance of the Nile's stock upon conversion of notes payable, any stock contemplated to be issued upon closing to the Mayo Foundation, warrant and option exchanges, the note conversion price, issuance of shares to Nile's Chief Executive Officer and Chief Financial Officer, the effects of the 1:50 reverse stock split and the issuance of shares to Capricor, as a result of the acquisition method of accounting.

(g) Additional Paid-in Capital. Reflects the adjustment of Nile's additional paid-in capital as a result of the acquisition method of accounting, including additional paid-in capital on shares issued as a result of the Merger.

(h) Deficit Accumulated During the Development Stage. Reflects the elimination of all of Nile's accumulated deficit of $48.1 million as a result of the acquisition method of accounting.

Adjustments to Unaudited Pro Forma Condensed Statement of Operations for the Nine Months Ended September 30, 2013 reflect the following adjustments:

(i) General and Administrative Expenses. Reflects the elimination of Merger related costs of $192,475.

(j) General and Administrative Expenses. Reflects the elimination of deferred salaries expense of $436,459.

(k) Interest Expense. Reflects the purchase accounting expensing of Nile's unamortized note discount balance related to the notes payable.

(l) Other Income (Expense). As a result of the elimination of the warrant liability as described in (d) above, there was a reduction of Nile's other expense of $189,800.

Adjustments to Unaudited Pro Forma Condensed Statement of Operations for the Year Ended December 31, 2012 reflect the following adjustments:

(m) General and Administrative Expenses. Reflects the elimination of deferred salaries expense of $56,428.

(n) Other Income (Expense). Reflects the write-off of goodwill expected to result from the Merger. Goodwill is calculated 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 level of goodwill expected to result from the merger is primarily reflective of Nile's publicly traded status and is assumed to be fully impaired as of the completion of the Merger.