

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549**

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended September 30, 2017

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 0-21214

CAPSTONE THERAPEUTICS CORP.  
(Exact name of registrant as specified in its charter)

Delaware 86-0585310  
(State or other jurisdiction of incorporation or organization) (IRS Employer Identification No.)

1275 W. Washington Street, Suite 104, Tempe, Arizona 85281  
(Address of principal executive offices) (Zip Code)

(602) 286-5520  
(Registrant's telephone number, including area code)

\_\_\_\_\_  
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes

No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. Large accelerated filer \_\_\_ Accelerated filer \_\_\_ Non-accelerated filer \_\_\_ (do not check if a smaller reporting company) Smaller reporting company X

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (17 CFR §230.405) or Rule 12b-2 of the Securities Exchange Act of 1934 (17 CFR §240.12b-2). Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

54,385,411 shares of common stock outstanding as of November 1, 2017

# CAPSTONE THERAPEUTICS CORP.

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## Forward Looking Statements

We may from time to time make written or oral forward-looking statements, including statements contained in our filings with the Securities and Exchange Commission and our reports to stockholders. The safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 protects companies from liability for their forward looking statements if they comply with the requirements of that Act. This Quarterly Report on Form 10-Q should be read in conjunction with our Amended Annual Report on Form 10-K/A for the year ended December 31, 2016, and contains forward-looking statements made pursuant to that safe harbor. These forward-looking statements relate to future events or to our future financial performance, and involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance, or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. In some cases, you can identify forward-looking statements by the use of words such as “may,” “could,” “expect,” “intend,” “plan,” “seek,” “anticipate,” “believe,” “estimate,” “predict,” “potential,” “continue,” or the negative of these terms or other comparable terminology. You should not place undue reliance on forward-looking statements since they involve known and unknown risks, uncertainties and other factors which are, in some cases, beyond our control and which could materially affect actual results, levels of activity, performance or achievements. Factors that may cause actual results to differ materially from current expectations, which we describe in more detail in this section titled “Risks,” include, but are not limited to:

- failure of the Company, or its joint venture, LipimetiX Development, Inc., to obtain additional funds to continue operations;
- Impact of the Company’s common stock not being listed on the OTCQB stock market;
- the impact of the terms or conditions of agreements associated with funds obtained to fund operations;
- failure to obtain additional funds required to complete clinical trials and supporting research and production efforts necessary to obtain FDA or comparable foreign agencies approval for product candidates or secure development agreements with pharmaceutical manufacturers;
- the impact of using a virtual operating model;
- unfavorable results of product candidate development efforts;
- unfavorable results of pre-clinical or clinical testing;
- delays in obtaining, or failure to obtain FDA or comparable foreign agencies approvals;
- increased regulation by the FDA or comparable foreign agencies;
- the introduction of competitive products;
- impairment of license, patent or other proprietary rights;
- the impact of present and future joint venture, collaborative or partnering agreements or the lack thereof; and
- failure to successfully implement our drug development strategy for AEM-28 and its analogs.

If one or more of these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may vary significantly from what we projected. Any forward-looking statement you read in this Quarterly Report on Form 10-Q reflects our current views with respect to future events and is subject to these and other risks, uncertainties and assumptions relating to our operations, results of operations, business strategy and liquidity. We assume no obligation to publicly update or revise these forward-looking statements for any reason, or to update the reasons actual results could differ materially from those anticipated in these forward-looking statements, even if new information becomes available in the future.

**PART I – Financial Information**  
**Item 1. Financial Statements**

**CAPSTONE THERAPEUTICS CORP.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
*(in thousands, except share and per share data)*

	<b>September 30,</b>	<b>December 31,</b>
	<b>2017</b>	<b>2016</b>
	<i>(Unaudited)</i>	
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 1,718	\$ 698
Other current assets	84	131
Total current assets	1,802	829
Patent license rights, net	235	353
<b>Total assets</b>	<b>\$ 2,037</b>	<b>\$ 1,182</b>
<b>LIABILITIES AND EQUITY</b>		
Current liabilities		
Accounts payable	\$ 157	\$ 249
Other accrued liabilities	36	55
Total current liabilities	193	304
Long-term debt		
Convertible Promissory Notes Payable	-	1,000
Secured Debt, net of unamortized issuance costs	2,159	-
Total long-term debt	2,159	1,000
<b>Equity</b>		
Capstone Therapeutics Corp. Stockholders' Equity		
Common Stock \$.0005 par value; 150,000,000 shares authorized; 54,385,411 and 40,885,411 shares outstanding September 30, 2017 and December 31, 2016, respectively	27	20
Additional paid-in capital	190,468	189,477
Accumulated deficit	(190,810)	(189,619)
Total Capstone Therapeutics Corp. stockholders' equity (deficit)	(315)	(122)
Noncontrolling interest	-	-
<b>Total equity</b>	<b>(315)</b>	<b>(122)</b>
<b>Total liabilities and equity</b>	<b>\$ 2,037</b>	<b>\$ 1,182</b>
<i>See notes to unaudited condensed consolidated financial statements</i>		

**CAPSTONE THERAPEUTICS CORP.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
*(in thousands, except per share data)*  
**(Unaudited)**

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
<b>OPERATING EXPENSES</b>				
General and administrative	\$ 159	\$ 55	\$ 374	\$ 437
Research and development	386	446	765	823
Total operating expenses	545	501	1,139	1,260
Interest and other expense, net	61	20	70	56
Loss from operations before taxes	606	521	1,209	1,316
Income tax benefit	(8)	(34)	(18)	(60)
<b>NET LOSS</b>	598	487	1,191	1,256
Less: Net Loss attributable to the noncontrolling interest	-	(946)	-	(946)
<b>Net Loss attributable to Capstone Therapeutics Corp. stockholders</b>	<b>\$ 598</b>	<b>\$ (459)</b>	<b>\$ 1,191</b>	<b>\$ 310</b>
Per Share Information:				
Net loss, basic and diluted, attributable to Capstone Therapeutic Corp. stockholders	\$ 0.01	\$ (0.01)	\$ 0.03	\$ 0.01
Basic and diluted shares outstanding	52,331	40,885	44,743	40,885
<i>See notes to unaudited condensed consolidated financial statements</i>				

**CAPSTONE THERAPEUTICS CORP.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
*(in thousands)*  
(Unaudited)

	<b>Nine months ended September 30,</b>	
	<b>2017</b>	<b>2016</b>
<b>OPERATING ACTIVITIES</b>		
Net loss	\$ (1,191)	\$ (1,256)
Non cash items:		
Amortization	144	134
Non-cash stock-based compensation	-	32
Change in other operating items:		
Other current assets	25	152
Accounts payable	(92)	71
Other accrued liabilities	(19)	37
Cash flows used in operating activities	(1,133)	(830)
<b>INVESTING ACTIVITIES</b>		
Cash flows provided by investing activities	-	-
<b>FINANCING ACTIVITIES</b>		
Sale of Common Stock	1,013	-
LipimetiX Development, Inc. Series B-1 Preferred Stock, net of issuance costs of \$66	-	946
Pay-off of Convertible Promissory Notes	(1,000)	-
Issuance of Secured Debt, net of issuance costs of \$287	2,140	-
Cash flows provided by financing activities	2,153	946
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>1,020</b>	<b>116</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>698</b>	<b>1,011</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 1,718</b>	<b>\$ 1,127</b>
<i>See notes to unaudited condensed consolidated financial statements</i>		

## CAPSTONE THERAPEUTICS CORP.

### NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS September 30, 2017

#### Note A. OVERVIEW OF BUSINESS

##### Description of the Business

Capstone Therapeutics Corp. (the “Company”, “we”, “our” or “us”) is a biotechnology company committed to developing a pipeline of novel peptides aimed at helping patients with under-served medical conditions. Previously, we were focused on the development and commercialization of two product platforms: AZX100 and Chrysalin (TP508). In 2012, we terminated the license for Chrysalin (targeting orthopedic indications). In 2014, we terminated the license for AZX100 (targeting dermal scar reduction). Capstone no longer has any rights to or interest in Chrysalin or AZX100.

On August 3, 2012, we entered into a joint venture, LipimetiX Development, LLC, (now LipimetiX Development, Inc.), (the “JV”), to develop Apo E mimetic peptide molecule AEM-28 and its analogs. The JV had a development plan to pursue regulatory approval of AEM-28, and/or an analog, as treatment for Homozygous Familial Hypercholesterolemia (granted Orphan Drug Designation by FDA in 2012) and other hyperlipidemic indications. The initial development plan extended through Phase 1a and 1b/2a clinical trials and was completed in the fourth quarter of 2014. The clinical trials had a safety primary endpoint and an efficacy endpoint targeting reduction of cholesterol and triglycerides.

The JV received allowance from regulatory authorities in Australia permitting the JV to proceed with the planned clinical trials. The Phase 1a clinical trial commenced in Australia in April 2014 and the Phase 1b/2a clinical trial commenced in Australia in June 2014. The clinical trials for AEM-28 were randomized, double-blinded, placebo-controlled studies to evaluate the safety, tolerability, pharmacokinetics and pharmacodynamics of six escalating single doses (Phase 1a in healthy patients with elevated cholesterol) and multiple ascending doses of the three highest doses from Phase 1a (Phase 1b/2a in patients with hypercholesterolemia and healthy volunteers with elevated cholesterol and high Body Mass Index). The Phase 1a clinical trial consisted of 36 patients and the Phase 1b/2a consisted of 15 patients. Both clinical trials were completed in 2014 and the Medical Safety Committee, reviewing all safety-related aspects of the clinical trials, observed a generally acceptable safety profile. As first-in-man studies, the primary endpoint was safety; yet efficacy measurements analyzing pharmacodynamics yielded statistical significance in the pooled dataset favoring AEM-28 versus placebo in multiple lipid biomarker endpoints.

Concurrent with the clinical development activities of AEM-28, the JV has performed pre-clinical studies that have identified an analog of AEM-28, referred to as AEM-28-14, and a new formulation, that has the potential of increased efficacy, higher human dose toleration and an extended composition of matter patent life (application filed with the U.S. Patent and Trademark Office in 2015). The JV’s current intent is to prioritize the development of AEM-28-14.

The JV and the Company are exploring fundraising, partnering or licensing, to obtain additional funding to continue development activities of AEM-28-14, and operations.

The JV and the Company do not have sufficient funding at this time to continue additional material development activities of AEM-28-14. The JV may conduct future clinical trials in Australia, the USA, and other regulatory jurisdictions if regulatory approvals, additional funding, and other conditions permit.

The Company, funding permitting, intends to continue limiting its internal operations to a virtual operating model while monitoring and participating in the management of JV's AEM-28-14 development activities.

## **Description of Current Peptide Drug Candidates.**

### Apo E Mimetic Peptide Molecule – AEM-28 and its analogs

Apolipoprotein E is a 299 amino acid protein that plays an important role in lipoprotein metabolism. Apolipoprotein E (Apo E) is in a class of protein that occurs throughout the body. Apo E is essential for the normal metabolism of cholesterol and triglycerides. After a meal, the postprandial (or post-meal) lipid load is packaged in lipoproteins and secreted into the blood stream. Apo E targets cholesterol and triglyceride rich lipoproteins to specific receptors in the liver, decreasing the levels in the blood. Elevated plasma cholesterol and triglycerides are independent risk factors for atherosclerosis, the buildup of cholesterol rich lesions and plaques in the arteries. AEM-28 is a 28 amino acid mimetic of Apo E and AEM-28 and its analogs, including AEM-28-14, is a 28 amino acid mimetic of Apo E (with an aminohexanoic acid group and a phospholipid), and both contain a domain that anchors into a lipoprotein surface while also providing the Apo E receptor binding domain, which allows clearance through the heparan sulfate proteoglycan (HSPG) receptors (Syndecan-1) in the liver. AEM-28 and its analogs, including AEM-28-14, as Apo E mimetics, have the potential to restore the ability of these atherogenic lipoproteins to be cleared from the plasma, completing the reverse cholesterol transport pathway, and thereby reducing cardiovascular risk. This is an important mechanism of action for AEM-28-14. Atherosclerosis is the major cause of cardiovascular disease, peripheral artery disease and cerebral artery disease, and can cause heart attack, loss of limbs and stroke. Defective lipid metabolism also plays an important role in the development of adult onset diabetes mellitus (Type 2 diabetes), and diabetics are particularly vulnerable to atherosclerosis, heart and peripheral artery diseases. Our joint venture has an Exclusive License Agreement with the University of Alabama at Birmingham Research Foundation for a broad domain of Apo E mimetic peptides, including AEM-28 and its analogs.

## **Company History**

Prior to November 26, 2003, we developed, manufactured and marketed proprietary, technologically advanced orthopedic products designed to promote the healing of musculoskeletal bone and tissue, with particular emphasis on fracture healing and spine repair. Our product lines, which included bone growth stimulation and fracture fixation devices, are referred to as our "Bone Device Business." In November 2003, we sold our Bone Device Business.

In August 2004, we purchased substantially all of the assets and intellectual property of Chrysalis Biotechnology, Inc., including its exclusive worldwide license for Chrysalin, a peptide, for all medical indications. Subsequently, our efforts were focused on research and development of Chrysalin with the goal of commercializing our products in fresh fracture healing. (In March 2012, we returned all rights to the Chrysalin intellectual property and no longer have any interest in, or rights to, Chrysalin.)

In February 2006, we purchased certain assets and assumed certain liabilities of AzERx, Inc. Under the terms of the transaction, we acquired an exclusive license for the core intellectual property relating to AZX100, an anti-fibrotic peptide. In 2014, we terminated the License Agreement with AzTE (Licensor) for the core intellectual property relating to AZX100 and returned all interest in and rights to the AZX100 intellectual property to the Licensor.

On August 3, 2012, we entered into a joint venture (see Note B below), to develop Apo E mimetic peptide molecule AEM-28 and its analogs.

Our development activities represent a single operating segment as they share the same product development path and utilized the same Company resources. As a result, we determined that it is appropriate to reflect our operations as one reportable segment.

OrthoLogic Corp. commenced doing business under the trade name of Capstone Therapeutics on October 1, 2008, and we formally changed our name from OrthoLogic Corp. to Capstone Therapeutics Corp. on May 21, 2010.

In these notes, references to “we”, “our”, “us”, the “Company”, “Capstone Therapeutics”, “Capstone”, and “OrthoLogic” refer to Capstone Therapeutics Corp. References to our joint venture or “JV”, refer to LipimetiX Development, Inc. (formerly LipimetiX Development, LLC).

**Basis of presentation, Going Concern, and Management’s Plans.** The accompanying financials statements have been prepared assuming the Company will continue as a going concern, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business.

Management has determined that the Company will require additional capital above its current cash and working capital balances to further develop AEM-28-14 or continue operations. Accordingly, the Company has significantly reduced its development activities. The Company’s corporate strategy is to raise funds by possibly engaging in a strategic/merger transaction, or conducting a private or public offering of debt or equity securities for capital. In August 2016, the Company’s joint venture raised net funds of \$946,000 in a Series B-1 Preferred Stock and Warrant offering. As described in Note E to the Financial Statements included in this Quarterly Report on Form 10-Q, the Company, on July 14, 2017, raised \$3,440,000, with net proceeds of approximately \$2,074,000, after paying off the Convertible Promissory Notes described in Note C and transaction costs. As discussed in Note B to the Financial Statements included in this Quarterly Report on Form 10-Q, in August 2017, the Company used \$1,000,000 of the net proceeds to purchase 93,458 shares of LipimetiX Development, Inc.’s Series B-2 Preferred Stock. The additional funds raised has alleviated the substantial doubt about the entity’s ability to continue as a going concern; however, additional funds will be required for the joint venture to reach its AEM-28-14 development goals and for the Company to continue its planned operations.

These financial statements have been prepared on a going concern basis and do not include any adjustments that might result the future success or lack thereof, of fundraising activities.

In the opinion of management, the unaudited condensed interim financial statements include all adjustments necessary for the fair presentation of our financial position, results of operations, and cash flows, and all adjustments were of a normal recurring nature. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the complete fiscal year. The financial statements include the consolidated results of Capstone Therapeutics Corp. and our 64% (With the Series B-1 and B-2 Preferred Stock on an as converted basis, and the Company converting its Series A Preferred Stock to common stock, the Company’s ownership would change to 69.75%.) owned subsidiary, LipimetiX Development, Inc. Intercompany transactions have been eliminated.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to Securities and Exchange Commission rules and regulations, although we believe that the disclosures herein are adequate to make the information presented not misleading. These unaudited condensed financial statements should be read in conjunction with the financial statements and the notes thereto included in our Annual Report on Form 10-K/A for the year ended December 31, 2016.

## **Use of Estimates**

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires that management make a number of assumptions and estimates that affect the reported amounts of assets, liabilities, and expenses in our financial statements and accompanying notes. Management bases its estimates on historical experience and various other assumptions believed to be reasonable. Although these estimates are based on management's assumptions regarding current events and actions that may impact us in the future, actual results may differ from these estimates and assumptions.

## **Legal and Other Contingencies**

The Company is subject to legal proceedings and claims, as well as potential inquiries and action by the Securities and Exchange Commission, that arise in the ordinary course of business. The Company records a liability when it is probable that a loss has been incurred and the amount is reasonably estimable. There is significant judgment required in both the probability determination and as to whether an exposure can be reasonably estimated. In the opinion of management, there was not at least a reasonable possibility the Company may have incurred a material loss with respect to loss contingencies.

## **Joint Venture Accounting**

The Company entered into a joint venture in which it has contributed \$6,000,000, and the noncontrolling interests have contributed certain patent license rights. As discussed in Note B to the Financial Statements included in this Quarterly Report on Form 10-Q, in August 2017, the Company purchased 93,458 shares of LipimetiX Development, Inc.'s Series B-2 Preferred Stock for \$1,000,000. Neither the Company nor the noncontrolling interests have an obligation to contribute additional funds to the joint venture or to assume any joint venture liabilities or to provide a guarantee of either joint venture performance or any joint venture liability. The financial position and results of operations of the joint venture are presented on a consolidated basis with the financial position and results of operations of the Company. Intercompany transactions have been eliminated. Joint venture losses were recorded on the basis of common ownership equity interests until common ownership equity was reduced to \$0. Subsequent joint venture losses were allocated to the Series A, B-1, and B-2 preferred ownership interests. Subsequent to March 31, 2013, all joint venture losses had been allocated to the Company. On August 25, 2016, the JV raised \$1,012,000 (\$946,000 net of issuance costs) in a Series B-1 Preferred Stock and Warrant offering and in 2016, \$946,000 in losses were allocated to the Series B-1 Preferred Stock ownership interests. As of September 30, 2017, losses incurred by the JV exceeded the capital accounts of the JV. The Company has a revolving loan agreement with the joint venture and has advanced the joint venture funds for operations in the amount of \$1,620,000, which includes accrued interest of \$20,000, at September 30, 2017 and as described in Note B to the Financial Statements included in this Quarterly Report on Form 10-Q, the due date of the revolving loan and related accrued interest has been extended to July 15, 2020, with early payment required upon certain additional funding of the joint venture by non-affiliated parties. Losses incurred by the joint venture in excess of the capital accounts of the joint venture will be allocated to the Company to the extent of the unpaid loan and accrued interest balance.

## **Cash and Cash Equivalents**

At September 30, 2017, cash and cash equivalents included money market accounts.

## **Recent Accounting Pronouncements**

In August 2014, the Financial Accounting Standards Board issued Accounting Standard Update ("ASU") No. 2014-15, *Presentation of Financial Statements – Going Concern (Subtopic 205-*

40)(“Update”): *Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern, providing a requirement under U.S. GAAP for an entity’s management to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity’s ability to continue as a going concern within one year after the date the financial statements are issued; and if those conditions exist, to disclose that fact, the conditions and the potential effects on the entity’s ability to meet its obligations. The Update will be effective for an annual period ending after December 15, 2016, with early application permitted.* If additional funds are not obtained to continue the development of AEM-28-14, it will impair our ability to reach our joint venture AEM-28-14 development goals and possibly to continue as a going concern. In August 2016, the Company’s joint venture raised net funds of \$946,000 in a Series B-1 Preferred Stock and Warrant offering. As described in Note E to the Financial Statements included in this Quarterly Report on Form 10-Q, the Company on July 14, 2017, raised \$3,440,000, with net proceeds of approximately \$2,074,000, after paying off the Convertible Promissory Notes described in Note C and transaction costs. As discussed in Note B to the Financial Statements included in this Quarterly Report on Form 10-Q, in August 2017, the Company purchased 93,458 shares of LipimetiX Development, Inc.’s Series B-2 Preferred Stock for \$1,000,000. The additional funds raised has alleviated the substantial doubt about the entity’s ability to continue as a going concern; however, additional funds will be required for the joint venture to reach its AEM-28-14 development goals and for the Company to continue its planned operations. If we do not continue as a going concern, the Company may incur additional losses, up to, and possibly exceeding our joint venture investment and revolving loan balance.

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09 “Revenue from Contracts from Customers,” which supersedes the revenue recognition requirements in “Revenue Recognition (Topic 605),” and requires entities to recognize revenue in a way that depicts the transfer of potential goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to the exchange for those goods or services. ASU 2014-09 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017 and earlier application is permitted only as of annual reporting periods beginning after December 15, 2016. Should the Company begin to generate revenue, the Company does not anticipate any material impact on its operations and financial statements.

#### **Note B. JOINT VENTURE FOR DEVELOPMENT OF APO E MIMETIC PEPTIDE MOLECULE AEM-28 AND ANALOGS**

On August 3, 2012, we entered into a Contribution Agreement with LipimetiX, LLC to form a joint venture, LipimetiX Development, LLC (“JV”), to develop Apo E mimetic molecules, including AEM-28 and its analogs. In June 2015, the JV converted from a limited liability company to a corporation, LipimetiX Development, Inc. The Company contributed \$6 million, which included \$1 million for 600,000 voting common ownership units (now common stock), representing 60% ownership in the JV, and \$5 million for 5,000,000 non-voting preferred ownership units (now Series A Preferred Stock), which have preferential distribution rights. On March 31, 2016, the Company converted 1,500,000 shares of its preferred stock into 120,000 shares of common stock, increasing its common stock ownership from 60% to 64%. On August 11, 2017, the currently \$3,500,000 (3,500,000 shares) of Series A preferred stock became convertible, at the Company’s option, into common stock, at the lower of the Series B-1 Preferred Stock Conversion Price, as may be adjusted for certain events, or the price of the next LipimetiX Development, Inc. financing, exceeding \$1,000,000, independently set valuation and terms. On August 11, 2017, the Company purchased 93,458 shares of LipimetiX Development, Inc.’s Series B-2 Preferred Stock for \$1,000,000. As discussed below, the JV Series B-1 and B-2 Preferred Stock issuances, because of the participating and conversion features of the preferred stock, effectively changes the Company’s ownership in the JV to 62.2%. With the Series B-1 and B-2 Preferred Stock on an as converted basis, and the Company converting its Series A Preferred Stock to common stock, the Company’s ownership would change to 69.75%.

LipimetiX, LLC contributed all intellectual property rights for Apo E mimetic molecules it owned and assigned its Exclusive License Agreement between The University of Alabama at Birmingham Research Foundation (“UABRF”) and LipimetiX, LLC, for the UABRF intellectual property related to Apo E mimetic molecules AEM-28 and its analogs to the JV, in return for 400,000 voting common ownership units (now common stock), representing a 40% ownership interest in the JV at formation, and \$378,000 in cash (for certain initial patent-related costs and legal expenses).

On August 25, 2016, LipimetiX Development, Inc. closed a Series B-1 Preferred Stock offering, raising funds of \$1,012,000 (\$946,000 net of issuance costs of approximately \$66,000). Individual accredited investors and management participated in the financing. This initial closing of the Series B-1 preferred stock offering resulted in the issuance of 94,537 shares of preferred stock, convertible to an equal number of the JV’s common stock at the election of the holders, and warrants to purchase an additional 33,088 shares of JV preferred stock, at an exercise price of \$10.70, with a ten-year term.

As disclosed above, the Company purchased 93,458 shares of LipimetiX Development, Inc.’s Series B-2 Preferred Stock for \$1,000,000. Following this Series B-2 closing, on an “as converted” basis, the Company owned 62.2% of the JV. Series B (B-1 and B-2) preferred stock is a participating preferred stock. As a participating preferred, the preferred stock will earn a 5% dividend, payable only upon the election by the JV or in liquidation. Prior to the JV common stock holders receiving distributions, the participating preferred stockholders will receive their earned dividends and payback of their original investment. Subsequently, the participating preferred will participate in future distributions on an equal “as converted” share basis with common stock holders. The Series B preferred stock has “as converted” voting rights and other terms standard to a security of this nature.

LipimetiX, LLC was formed by the principals of Benu BioPharma, Inc. (“Benu”) and UABRF to commercialize UABRF’s intellectual property related to Apo E mimetic molecules, including AEM-28 and analogs. Benu is composed of Dennis I. Goldberg, Ph.D. and Eric M. Morrel, Ph.D. The Exclusive License Agreement, as amended, calls for payment of patent filing, maintenance and other related patent fees, as well as a royalty of 3% on Net Sales of Licensed Products during the Term of the Agreement. The Agreement terminates upon the expiration of all Valid Patent Claims within the Licensed Patents, which are currently estimated to expire between 2019 and 2035. The Agreement, as amended, also calls for annual maintenance payments of \$25,000, various milestone payments of \$50,000 to \$500,000 and minimum royalty payments of \$500,000 to \$1,000,000 per year commencing on January 1 of the first calendar year following the year in which the First Commercial Sale occurs. UABRF will also be paid 5% of Non-Royalty Income received.

Concurrent with entering into the Contribution Agreement and the First Amendment and Consent to Assignment of Exclusive License Agreement between LipimetiX, LLC, UABRF and the Company, the Company and LipimetiX, LLC entered into a Limited Liability Company Agreement for JV which established a Joint Development Committee (“JDC”) to manage JV development activities. Upon conversion by the JV from a limited liability company to a corporation, the parties entered into a Stockholders Agreement for the JV, and the JDC was replaced by a Board of Directors (JV Board). The JV Board is composed of three members appointed by the non-Company common stock ownership group, three members appointed by the Company and one member appointed by the Series B-1 Preferred Stockholders. Non-development JV decisions, including the issuance of new equity, incurrence of debt, entry into strategic transactions, licenses or development agreements, sales of assets and liquidation, and approval of annual budgets, will be decided by a majority vote of the common and Series B Preferred Stock (voting on an “as converted” basis) stockholders.

The JV, on August 3, 2012, entered into a Management Agreement with Benu to manage JV development activities for a monthly fee of approximately \$63,000 during the twenty-seven month development period, and an Accounting Services Agreement with the Company to manage JV accounting

and administrative functions. The services related to these agreements have been completed. New Management and Accounting Services Agreements were entered into effective June 1, 2016. The new monthly management fee is \$80,000 and the new monthly accounting services fee is \$10,000. However, no Management or Accounting Services fees are due or payable except to the extent funding is available, as unanimously approved by members of the JV Board of Directors and as reflected in the approved operating budget in effect at that time. In connection with the Series B-1 Preferred Stock issuance, Management Fees totaling \$300,000, of which \$250,000 was charged to expense in 2016 and \$50,000 was included in other current assets at December 31, 2016 and charged to expense in the first quarter of 2017, and Accounting Fees totaling \$60,000, charged to expense in 2016, were paid in 2016. In August 2017 the Accounting Services Agreement monthly fee was increased to \$20,000 and will thereafter be accrued but not payable, until certain levels of joint venture funding are obtained from non-affiliated parties. At September 30, 2017, accounting fees of \$40,000 were earned but unpaid. In August 2017, a Management Fee of \$300,000 was approved by the joint venture's Board of Directors with \$150,000 paid and charged to expense in the third quarter of 2017 and \$150,000 payable in 2018.

The joint venture formation was as follows (\$000's):

Patent license rights	\$ 1,045
Noncontrolling interests	<u>( 667)</u>
Cash paid at formation	<u>\$ 378</u>

Patent license rights were recorded at their estimated fair value and are being amortized on a straight-line basis over the key patent life of eighty months.

The financial position and results of operations of the joint venture are presented on a consolidated basis with the financial position and results of operations of the Company. Intercompany transactions have been eliminated. In the Company's consolidated financial statements, joint venture losses were recorded on the basis of common ownership equity interests until common ownership equity was reduced to \$0. Subsequent joint venture losses were being allocated to the Series A preferred ownership equity (100% Company). Subsequent to March 31, 2013, all joint venture losses had been allocated to the Company. On August 25, 2016 the JV raised \$1,012,000, (\$946,000 net of issuance costs) in a Series B-1 Preferred Stock and Warrant offering and in 2016, \$946,000 of losses were allocated to the Series B-1 Preferred Stock ownership interests. As of September 30, 2017, losses incurred by the JV exceeded the capital accounts of the JV. The Company has a revolving loan agreement with the joint venture, with the loan due December 31, 2016. In August 2017, the due date of the revolving loan was extended to July 15, 2020, with early payment required upon certain additional funding of the joint venture by non-affiliated parties. Subsequent to June 30, 2017, interest due on the revolving loan will be accrued and payable only upon certain additional funding of the joint venture by non-affiliated parties. Losses incurred by the joint venture in excess of the capital accounts of the joint venture will be allocated to the Company to the extent of the unpaid loan and accrued interest balance. At September 30, 2017, the revolving loan agreement balance, including accrued interest subsequent to June 30, 2017 of \$20,000, was \$1,620,000.

The joint venture incurred net operating expenses, prior to the elimination of intercompany transactions, of \$843,000 in 2017 and \$9,315,000 for the period from August 3, 2012 (inception) to September 30, 2017, of which \$843,000, and \$7,702,000, respectively, have been recorded by the Company. The joint venture operating expenses are included in research and development expenses in the condensed consolidated statements of operations.

Neither the Company nor the noncontrolling interests have an obligation to contribute additional funds to the joint venture or to assume any joint venture liabilities or to provide a guarantee of either joint venture performance or any joint venture liability. Losses allocated to the common stock noncontrolling interests represent an additional potential loss for the Company as the common stock noncontrolling interests are not obligated to contribute assets to the joint venture, and depending on the ultimate outcome

of the joint venture, the Company could potentially absorb all losses associated with the joint venture. From formation of the joint venture, August 3, 2012, through September 30, 2017, losses totaling \$667,000 have been allocated to the common stock noncontrolling interests. If the joint venture or Company is unable to obtain additional funding, the ability of the joint venture to continue development of AEM-28-14, would be impaired as would the joint venture's ability to continue operations. If the joint venture does not continue as a going concern, at September 30, 2017 the Company would incur an additional loss of \$667,000 for the joint venture losses allocated to the common stock noncontrolling interests.

#### **Note C. CONVERTIBLE PROMISSORY NOTES PAYABLE**

On December 11, 2015, we entered into a Securities Purchase Agreement with Biotechnology Value Fund affiliated entities Biotechnology Value Fund, L.P., Biotechnology Value Fund II, L.P., Biotechnology Value Trading Fund OS, L.P., Investment 10, LLC, and MSI BVF SPV, which provided \$1,000,000 in funding for our operations in the form of Convertible Promissory Notes ("Notes"). The Notes bear interest at 5% and were due April 30, 2017, with the due date subsequently extended to July 14, 2017. The Notes were secured by all intangible and tangible assets of the Company and convertible, either at the election of the Lenders or mandatory on certain future funding events, into either the Company's Common or Preferred Stock. A portion of the funds were advanced to JV to initiate preclinical development activities for our lead commercial drug candidate, AEM-28-14. As described in Note E to this Quarterly Report on Form 10-Q, the Convertible Promissory Notes and accrued interest thereon of \$79,000 were paid off on July 14, 2017. Prior to the July 14, 2017 transaction, the Biotechnology Value Fund affiliated entities owned approximately 19% of our outstanding common stock.

#### **Note D. AUSTRALIAN REFUNDABLE RESEARCH & DEVELOPMENT CREDIT**

In March 2014, LipimetiX Development LLC, (Now LipimetiX Development, Inc. - see Note B) formed a wholly-owned Australian subsidiary, LipimetiX Australia Pty Ltd, to conduct Phase 1a and Phase 1b/2a clinical trials in Australia. Currently Australian tax regulations provide for a refundable research and development tax credit equal to either 43.5% or 45% (depending on the tax period) of qualified expenditures. The transitional Australian tax periods/years granted for LipimetiX Australia Pty Ltd end on June 30, 2014, December 31, 2014 and thereafter December 31 of each succeeding year. For the year ended December 31, 2016 a AUD\$84,000 refundable research and development tax credit was received by LipimetiX Australia Pty Ltd. For the nine months ended September 30, 2017, an additional AUD\$18,000 refundable research and development tax credit has been recorded by LipimetiX Australia Pty Ltd.

#### **Note E: SALE OF COMMON STOCK, SECURED LOAN AND PAY OFF OF CONVERTIBLE PROMISSORY NOTES**

As described in our Current Report on Form 8-K filed with the Securities and Exchange Commission on July 17, 2017, on July 14, 2017, the Company entered into a Securities Purchase, Loan and Security Agreement (the "Agreement") with BP Peptides, LLC ("Brookstone"). The net funds will be used to fund our operations, infuse new capital into our joint venture, LipimetiX Development, Inc. ("JV") (As described in Note B to this Quarterly Report on Form 10-Q, in August 2017, the Company purchased 93,458 shares of LipimetiX Development, Inc.'s Series B-2 Preferred Stock for \$1,000,000.), to continue its AEM-28-14 development activities, and pay off the Convertible

Promissory Notes (as described in Note C to this Quarterly Report on Form 10-Q) totaling \$1,000,000, plus \$79,000 in accrued interest.

Pursuant to the Agreement, Brookstone funded an aggregate of \$3,440,000, with net proceeds of approximately \$2,074,000, after paying off the Convertible Promissory Notes and transaction costs, of which \$1,102,500 was for the purchase of 13,500,000 newly issued shares of our Common Stock, and \$2,427,500 was in the form of a secured loan, due October 15, 2020. On July 14, 2017 Brookstone also purchased 5,041,197 shares of the Company's Common Stock directly from Biotechnology Value Fund affiliated entities, resulting in ownership of 18,541,197 shares of the Company's Common Stock, representing approximately 34.1% of outstanding shares of the Company's Common Stock at September 30, 2017. Transaction costs of \$287,000 have been deferred and will be written off over the life of the secured loan, thirty-nine months from July 14, 2017 to October 20, 2017, on the straight line basis. At September 30, 2017 transaction costs of \$19,000 have been amortized and included in the Condensed Consolidated Statements of Operations in Interest and Other Expenses and at September 30, 2017, unamortized transaction costs of \$268,000 have been netted against the outstanding Secured Debt balance on the Condensed Consolidated Balance Sheets.

The secured loan bears interest at 6% per annum, with interest payable quarterly, and is secured by a security interest in all of our assets. As part of the Agreement, the Company and Brookstone entered into a Registration Rights Agreement granting Brookstone certain demand and piggyback registration rights. A provision in the Agreement entered into with Brookstone also requires the Company to nominate two candidates for a director position that have been recommended by Brookstone as long as Brookstone beneficially owns over 20% of the Company's outstanding common stock and to nominate one candidate for a director position that has been recommended by Brookstone as long as Brookstone beneficially owns over 5% but less than 20% of the Company's outstanding common stock.

On April 18, 2017, the Company and Computershare Trust Company, N.A., as Rights Agent (the "Rights Agent") entered into Tax Benefit Preservation Plan Agreement (the "Plan"), dated as of April 18, 2017, between the Company and the Rights Agent, as described in the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 19, 2017. The Plan is intended to act as a deterrent to any person (together with all affiliates and associates of such person) acquiring "beneficial ownership" (as defined in the Plan) of 4.90% or more of the outstanding shares of Common Stock without the approval of the Board (an "Acquiring Person"), in an effort to protect against a possible limitation on the Company's ability to use its net operating loss carryforwards. The Board, in accordance with the Plan, granted an Exemption to Brookstone with respect to the share acquisition described above, and Brookstone's acquisition of 5,041,197 shares of the Company's Common Stock from Biotechnology Value Fund affiliated entities, making Brookstone an Exempt Person in respect of such transactions.

## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

The following is management's discussion of significant events in the three and nine month periods ended September 30, 2017 and factors that affected our interim financial condition and results of operations. This should be read in conjunction with our "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Risk Factors" included in our Amended Annual Report on Form 10-K/A for the year ended December 31, 2016.

## Overview of the Business

Capstone Therapeutics Corp. (the “Company”, “we”, “our” or “us”) is a biotechnology company committed to developing a pipeline of novel peptides aimed at helping patients with under-served medical conditions. Previously, we were focused on the development and commercialization of two product platforms: AZX100 and Chrysalin (TP508). In 2012, we terminated the license for Chrysalin (targeting orthopedic indications). In 2014, we terminated the license for AZX100 (targeting dermal scar reduction). Capstone no longer has any rights to or interest in Chrysalin or AZX100.

On August 3, 2012, we entered into a joint venture, LipimetiX Development, LLC, (now LipimetiX Development, Inc.), (the “JV”), to develop Apo E mimetic peptide molecule AEM-28 and its analogs. The JV has a development plan to pursue regulatory approval of AEM-28, and/or an analog, as treatment for Homozygous Familial Hypercholesterolemia (granted Orphan Drug Designation by FDA in 2012) and other hyperlipidemic indications. The initial development plan extended through Phase 1a and 1b/2a clinical trials and was completed in the fourth quarter of 2014. The clinical trials had a safety primary endpoint and an efficacy endpoint targeting reduction of cholesterol and triglycerides.

The JV received allowance from regulatory authorities in Australia permitting the JV to proceed with the planned clinical trials. The Phase 1a clinical trial commenced in Australia in April 2014 and the Phase 1b/2a clinical trial commenced in Australia in June 2014. The clinical trials for AEM-28 were randomized, double-blinded, placebo-controlled studies to evaluate the safety, tolerability, pharmacokinetics and pharmacodynamics of six escalating single doses (Phase 1a in healthy patients with elevated cholesterol) and multiple ascending doses of the three highest doses from Phase 1a (Phase 1b/2a in patients with hypercholesterolemia and healthy volunteers with elevated cholesterol and high Body Mass Index). The Phase 1a clinical trial consisted of 36 patients and the Phase 1b/2a consisted of 15 patients. Both clinical trials were completed in 2014 and the Medical Safety Committee, reviewing all safety-related aspects of the clinical trials, observed a generally acceptable safety profile. As first-in-man studies, the primary endpoint was safety; yet efficacy measurements analyzing pharmacodynamics yielded statistical significance in the pooled dataset favoring AEM-28 versus placebo in multiple lipid biomarker endpoints.

Concurrent with the clinical development activities of AEM-28, the JV has performed pre-clinical studies that have identified an analog of AEM-28, referred to as AEM-28-14, and a new formulation, that has the potential of increased efficacy, higher human dose toleration and an extended composition of matter patent life (application filed with the U.S. Patent and Trademark Office in 2015). The JV’s current intent is to prioritize the development of AEM-28-14.

The JV and the Company are exploring fundraising, partnering or licensing, to obtain additional funding to continue development activities of AEM-28-14, and operations.

The JV and the Company do not have sufficient funding at this time to continue additional material development activities of AEM-28-14. The JV may conduct future clinical trials in Australia, the USA, and other regulatory jurisdictions if regulatory approvals, additional funding, and other conditions permit.

The Company, funding permitting, intends to continue limiting its internal operations to a virtual operating model while monitoring and participating in the management of JV’s AEM-28-14 development activities.

## **Description of Current Peptide Drug Candidates.**

### Apo E Mimetic Peptide Molecule – AEM-28 and its analogs

Apolipoprotein E is a 299 amino acid protein that plays an important role in lipoprotein metabolism. Apolipoprotein E (Apo E) is in a class of protein that occurs throughout the body. Apo E is essential for the normal metabolism of cholesterol and triglycerides. After a meal, the postprandial (or post-meal) lipid load is packaged in lipoproteins and secreted into the blood stream. Apo E targets cholesterol and triglyceride rich lipoproteins to specific receptors in the liver, decreasing the levels in the blood. Elevated plasma cholesterol and triglycerides are independent risk factors for atherosclerosis, the buildup of cholesterol rich lesions and plaques in the arteries. AEM-28 is a 28 amino acid mimetic of Apo E and AEM-28 and its analogs, including AEM-28-14, is a 28 amino acid mimetic of Apo E (with an aminohexanoic acid group and a phospholipid), and both contain a domain that anchors into a lipoprotein surface while also providing the Apo E receptor binding domain, which allows clearance through the heparan sulfate proteoglycan (HSPG) receptors (Syndecan-1) in the liver. AEM-28 and its analogs, including AEM-28-14, as Apo E mimetics, have the potential to restore the ability of these atherogenic lipoproteins to be cleared from the plasma, completing the reverse cholesterol transport pathway, and thereby reducing cardiovascular risk. This is an important mechanism of action for AEM-28-14. Atherosclerosis is the major cause of cardiovascular disease, peripheral artery disease and cerebral artery disease, and can cause heart attack, loss of limbs and stroke. Defective lipid metabolism also plays an important role in the development of adult onset diabetes mellitus (Type 2 diabetes), and diabetics are particularly vulnerable to atherosclerosis, heart and peripheral artery diseases. Our joint venture has an Exclusive License Agreement with the University of Alabama at Birmingham Research Foundation for a broad domain of Apo E mimetic peptides, including AEM-28 and its analogs.

### **Critical Accounting Policies**

Our critical accounting policies are those that affect, or could affect our financial statements materially and involve a significant level of judgment by management. The accounting policies and related risks described in our Amended Annual Report on Form 10-K/A, filed with the Securities and Exchange Commission on October 30, 2017, for the year ended December 31, 2016 are those that depend most heavily on these judgments and estimates. As of September 30, 2017, there have been no material changes to any of the critical accounting policies contained in our Amended Annual Report for the year ended December 31, 2016.

### **Results of Operations Comparing Three-Month Period Ended September 30, 2017 to the Corresponding Period in 2016.**

*General and Administrative (“G&A”) Expenses:* G&A expenses related to our ongoing operations were \$159,000 in the third quarter of 2017 compared to \$55,000 in the third quarter of 2016. Administration expenses increased primarily due to our purchase of Directors’ and Officers’ insurance, costs and fees related to our independent public accountant audit services, and temporary salary increases.

*Research and Development Expenses:* Research and development expenses were \$386,000 in the third quarter of 2017 compared to \$446,000 in the third quarter of 2016. Our development activities of AEM-28-14 will continue to be limited, as we attempt to obtain additional funding.

*Net Loss attributable to Capstone Therapeutics stockholders:* We incurred a net loss in the third quarter of 2017 of \$.6 million compared to a net income of \$.5 million in the third quarter of 2016. Net losses were comparable between periods prior to the \$946,000 reduction in losses recorded (allocated to noncontrolling interests) due to the JV Series B-1 Preferred Stock and Warrant offering in August 2016.

The increase in Net Loss is primarily due to our purchase of Directors' and Officers' insurance, costs and fees related to our independent public accountant audit services, and temporary salary increases. Our operations and the development activities of AEM-28-14 will continue to be limited, as we attempt to obtain additional funding.

### **Results of Operations Comparing Nine-Month Period Ended September 30, 2017 to the Corresponding Period in 2016.**

*General and Administrative (“G&A”) Expenses:* G&A expenses related to our ongoing operations were \$374,000 in the first nine months of 2017 compared to \$437,000 in the first nine months of 2016. Administration expenses decreased primarily due to a 50% reduction in salaries and consulting fee rates taken by all staff and consultants in March 2016 and reductions from our cost cutting efforts, now partially offset by our purchase of Directors' and Officers' insurance, costs and fees related to our independent public accountant audit services, and temporary salary increases.

*Research and Development Expenses:* Research and development expenses were \$765,000 for the first nine months of 2017 compared to \$823,000 for the first nine months of 2016. Our development activities of AEM-28-14 will continue to be limited, as we attempt to obtain additional funding.

*Net Loss attributable to Capstone Therapeutics stockholders:* We incurred a net loss in the first nine months of 2017 of \$1.2 million compared to a net loss of \$.3 million in the first nine months of 2016. Net losses were comparable between periods prior to the \$946,000 reduction in losses recorded (allocated to noncontrolling interests) due to the JV Series B-1 Preferred Stock and Warrant offering in August 2016. Our operations and the development activities of AEM-28-14 will continue to be limited, as we attempt to obtain additional funding.

### **Liquidity and Capital Resources**

With the sale of our Bone Device Business in November 2003, we sold all of our revenue producing operations. Since that time, we have primarily relied on our cash and investments to finance all our operations, the focus of which has been research and development of our product candidates.

On August 3, 2012, we entered into a joint venture, to develop Apo E mimetic peptide AEM-28 and its analogs. We have invested \$7.0 million and through September 30, 2016 we have loaned an additional \$1,620,000 to the JV. The JV raised \$1,012,000 (\$946,000 net of issuance costs) in the JV's Series B-1 Preferred Stock and Warrant offering in August 2016. As described in Note E to the Financial Statements included in this Quarterly Report on Form 10-Q, the Company on July 14, 2017, raised \$3,440,000, with net proceeds of approximately \$2,074,000, after paying off the Convertible Promissory Notes described in Note C and transaction costs. At September 30, 2017, we had cash and cash equivalents of \$1,718,000, of which \$796,000 is held by our JV.

We intend to continue limiting our internal operations to a virtual operating model in 2017, however, without additional funding, we will limit the development activities of AEM-28-14. Lack of additional funding for development activities of AEM-28-14 could would impair our ability to continue our current operations as planned.

Funding permitting, our planned operations in 2017 consist of continuing monitoring and participating in the management of the JV's AEM-28-14 development activities.

Our future research and development and other expenses will vary significantly from prior periods and depend on the Company's decisions on future JV operations and obtaining additional funding.

We will require additional funds if we chose to extend the development of AEM-28-14. We cannot currently predict the amount of funds that will be required if we chose to extend the development activities of AEM-28-14 and its analogs and to continue operations. In any event, to complete the clinical trials and supporting research and production efforts necessary to obtain FDA or comparable foreign agencies' approval for product candidates would require us to obtain additional capital. New sources of funds, including raising capital through the sales of our debt or equity securities, joint venture or other forms of joint development arrangements, sales of development rights, or licensing agreements, may not be available or may only be available on terms that would have a material adverse impact on our existing stockholders' interests.

As discussed in Note E to the Financial Statement included in this Quarterly Report on Form 10-Q, on July 14, 2017, the Company received a secured loan of \$2,427,500, due October 15, 2020, from BP Peptides, LLC, an entity that currently own approximately 34.1% of the Company's common stock.

#### **Item 4. Controls and Procedures**

##### Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial and accounting officer, has reviewed and evaluated our disclosure controls and procedures (as defined in the Securities Exchange Act Rule 13a-15(e)) as of the end of the period covered by this Form 10-Q. Based on that evaluation, our management, including our principal executive officer and principal financial and accounting officer, has concluded that our disclosure controls and procedures were ineffective as of the end of the period covered by this Form 10-Q (the March 31, 2017 and June 30, 2017 Form 10-Qs, which were not reviewed by an independent accountant at the time of filing, included an error related to the classification of the \$1,000,000 Convertible Promissory Notes payable. The Convertible Promissory Notes payable were presented in the March 31, 2017 financial statements as long-term when in fact they were current and were presented in the June 30, 2017 financial statements as current when in fact they were long-term ) in ensuring that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and is accumulated and communicated to management, including our principal executive officer and principal financial and accounting officer, as appropriate, to allow timely decisions regarding required disclosure.

##### Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Part II – Other Information**

**Item 1. Legal Proceedings**

None

**Item 6. Exhibits**

See the Exhibit Index following this report.

## **SIGNATURES**

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

### **CAPSTONE THERAPEUTICS CORP.**

(Registrant)

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ John M. Holliman, III</u> John M. Holliman, III	Chairman and Chief Executive Officer (Principal Executive Officer)	November 13, 2017
<u>/s/ Les M. Taeger</u> Les M. Taeger	Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	November 13, 2017

**CERTIFICATION**

I, John M. Holliman, III certify that:

1. I have reviewed this quarterly report on Form 10-Q of Capstone Therapeutics Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 13, 2017

By: /s/ John M. Holliman, III  
John M. Holliman, III  
Chairman and Chief Executive Officer  
(Principal Executive Officer)

## CERTIFICATION

I, Les M. Taeger, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Capstone Therapeutics Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 13, 2017

By: /s/ Les M. Taeger  
Les M. Taeger  
Senior Vice President and Chief Financial Officer  
(Principal Financial and Accounting Officer)

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Capstone Therapeutics Corp. (the “Company”) on Form 10-Q for the period ended September 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), each of John M. Holliman, III, Executive Chairman and Principal Executive Officer of the Company, and Les M. Taeger, Senior Vice President and Chief Financial Officer, and Principal Financial and Accounting Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to the best of his knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 13, 2017

/s/ John M. Holliman, III  
John M. Holliman, III  
Chairman and Chief Executive Officer  
(Principal Executive Officer)

/s/ Les M. Taeger  
Les M. Taeger  
Senior Vice President and Chief Financial Officer  
(Principal Financial and Accounting Officer)

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Capstone Therapeutics Corp. and will be retained by Capstone Therapeutics Corp. and furnished to the Securities and Exchange Commission or its staff upon request.

**Capstone Therapeutics Corp.**  
**(the “Company”)**  
**Exhibit Index to Quarterly Report on Form 10-Q**  
**For the Quarterly Period Ended September 30, 2017**

No.	Description	Incorporated by Reference To:	Filed Herewith
31.1	Certification of Principal Executive Officer Pursuant to Securities Exchange Act Rule 13a-14(a), as amended.		X
31.2	Certification of Principal Financial and Accounting Officer Pursuant to Securities Exchange Act Rule 13a-14(a), as amended.		X
32	Certification of Principal Executive Officer and Principal Financial and Accounting Officer Pursuant to 18 U.S.C. Section 1350.*		
101	<p>The following financial information from our Quarterly Report on Form 10-Q for the third quarter of fiscal year 2017, filed with the SEC on November 13, 2017 formatted in Extensible Business Reporting Language (XBRL): (i) the Condensed Consolidated Balance Sheets as of September 30, 2017 and December 31, 2016, (ii) the Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2017 and 2016 (iii) the Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2017 and 2016, and (iv) Notes to Unaudited Condensed Consolidated Financial Statements.</p> <p>* Furnished herewith</p>		X