

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

FORM 10-Q

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

For the quarterly period ended June 30, 2023

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: 0-51891

INTERNATIONAL STEM CELL CORPORATION

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)
9745 Businesspark Ave
San Diego, CA
(Address of Principal Executive Offices)

20-4494098
(I.R.S. Employer
Identification No.)

92131
(Zip Code)

(760) 940-6383
(Registrant's telephone number)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
None	None	None

Indicated 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, every Interactive Data File required to be submitted 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 such files). YES ☒ NO ☐

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant 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. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ☐ NO ☒

As of August 8, 2023, the Registrant had 8,004,389 shares of Common Stock outstanding.

International Stem Cell Corporation and Subsidiaries
Form 10-Q
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PART I – FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

International Stem Cell Corporation and Subsidiaries
Condensed Consolidated Balance Sheets
(In thousands, except share and par value data)
(Unaudited)

	June 30, 2023	December 31, 2022
Assets		
Current assets:		
Cash	\$ 1,382	\$ 742
Accounts receivable, net	662	747
Inventory, net	1,296	1,384
Prepaid expenses and other current assets	344	90
Total current assets	3,684	2,963
Non-current inventory, net	326	286
Property and equipment, net	256	248
Intangible assets, net	837	878
Right-of-use assets	646	727
Deposits and other assets	37	33
Total assets	<u>\$ 5,786</u>	<u>\$ 5,135</u>
Liabilities, Redeemable Convertible Preferred Stock and Stockholders' Deficit		
Current liabilities:		
Accounts payable	\$ 331	\$ 322
Accrued liabilities	521	508
Operating lease liabilities, current	252	230
Advances	250	250
Related party note payable	3,390	3,325
Total current liabilities	4,744	4,635
Operating lease liabilities, net of current portion	588	720
Total liabilities	5,332	5,355
Commitments and contingencies (Note 8)		
Series D redeemable convertible preferred stock, \$0.001 par value; 50 shares authorized; 43 shares issued and outstanding; liquidation preference of \$4,300 at June 30, 2023 and December 31, 2022	4,300	4,300
Stockholders' Deficit:		
Non-redeemable convertible preferred stock, \$0.001 par value; 10,004,310 and 10,004,310 shares authorized; 5,254,310 and 5,254,310 shares issued and outstanding; liquidation preference of \$9,789 and \$9,781 at June 30, 2023 and December 31, 2022, respectively	5	5
Common stock, \$0.001 par value; 120,000,000 shares authorized; 8,004,389 shares issued and outstanding at June 30, 2023 and December 31, 2022	8	8
Additional paid-in capital	106,028	105,812
Accumulated deficit	(109,887)	(110,345)
Total stockholders' deficit	(3,846)	(4,520)
Total liabilities, redeemable convertible preferred stock and stockholders' deficit	<u>\$ 5,786</u>	<u>\$ 5,135</u>

See accompanying notes to the unaudited condensed consolidated financial statements.

International Stem Cell Corporation and Subsidiaries
Condensed Consolidated Statements of Operations
(In thousands, except per share data)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Product sales	\$ 1,841	\$ 2,027	\$ 3,927	\$ 4,047
Operating expenses:				
Cost of sales	713	718	1,537	1,443
General and administrative	918	872	1,718	1,704
Selling and marketing	309	323	624	624
Research and development	45	83	190	220
Total operating expenses	1,985	1,996	4,069	3,991
Income (loss) from operations	(144)	31	(142)	56
Other income (expense):				
Interest expense	(35)	(33)	(71)	(67)
Other income	671	—	671	—
Total other income (expense), net	636	(33)	600	(67)
Net income (loss)	492	(2)	458	(11)
Undistributed earnings allocated to participating securities	(233)	—	(217)	—
Net income (loss) allocable to common stockholders	\$ 259	\$ (2)	\$ 241	\$ (11)
Net income (loss) per common share, basic and diluted	\$ 0.03	\$ —	\$ 0.03	\$ —
Weighted-average common shares used to compute net income per share, basic and diluted	8,004,389	8,004,389	8,004,389	8,004,389

See accompanying notes to the unaudited condensed consolidated financial statements.

International Stem Cell Corporation and Subsidiaries
Condensed Consolidated Statements of Changes in Redeemable Convertible
Preferred Stock and Stockholders' Deficit
(In thousands)
(Unaudited)

	Three and Six Months Ended June 30, 2023								
	Series D Redeemable Convertible		Non-redeemable Convertible		Common		Additional	Accumulated	Total
	Preferred Stock Shares	Amount	Preferred Stock Shares	Amount	Stock Shares	Amount	Paid-in Capital	Deficit	Stockholders' Deficit
Balance at December 31, 2022	—	\$ 4,300	5,254	\$ 5	8,004	\$ 8	\$ 105,812	\$ (110,345)	\$ (4,520)
Stock-based compensation	—	—	—	—	—	—	108	—	108
Net loss	—	—	—	—	—	—	—	(34)	(34)
Balance at March 31, 2023	—	4,300	5,254	5	8,004	8	105,920	(110,379)	(4,446)
Stock-based compensation	—	—	—	—	—	—	108	—	108
Net income	—	—	—	—	—	—	—	492	492
Balance at June 30, 2023	<u>—</u>	<u>\$ 4,300</u>	<u>5,254</u>	<u>\$ 5</u>	<u>8,004</u>	<u>\$ 8</u>	<u>\$ 106,028</u>	<u>\$ (109,887)</u>	<u>\$ (3,846)</u>

	Three and Six Months Ended June 30, 2022								
	Series D Redeemable Convertible		Non-redeemable Convertible		Common		Additional	Accumulated	Total
	Preferred Stock Shares	Amount	Preferred Stock Shares	Amount	Stock Shares	Amount	Paid-in Capital	Deficit	Stockholders' Deficit
Balance at December 31, 2021	—	\$ 4,300	5,254	\$ 5	8,004	\$ 8	\$ 105,413	\$ (110,014)	\$ (4,588)
Stock-based compensation	—	—	—	—	—	—	91	—	91
Net loss	—	—	—	—	—	—	—	(9)	(9)
Balance at March 31, 2022	—	4,300	5,254	5	8,004	8	105,504	(110,023)	(4,506)
Stock-based compensation	—	—	—	—	—	—	90	—	90
Net loss	—	—	—	—	—	—	—	(2)	(2)
Balance at June 30, 2022	<u>—</u>	<u>\$ 4,300</u>	<u>5,254</u>	<u>\$ 5</u>	<u>8,004</u>	<u>\$ 8</u>	<u>\$ 105,594</u>	<u>\$ (110,025)</u>	<u>\$ (4,418)</u>

See accompanying notes to the unaudited condensed consolidated financial statements.

International Stem Cell Corporation and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Six Months Ended June 30,	
	2023	2022
Cash flows from operating activities		
Net income (loss)	\$ 458	\$ (11)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	99	111
Non-cash operating lease expense	81	68
Stock-based compensation	216	181
Interest expense on related party note payable	65	67
Changes in operating assets and liabilities:		
Accounts receivable	85	181
Inventory, net	48	(164)
Prepaid expenses and other current assets	(254)	(249)
Deposits and other assets	(4)	5
Accounts payable	9	(36)
Accrued liabilities	13	97
Operating lease liabilities	(110)	(81)
Net cash provided by operating activities	706	169
Cash flows from investing activities		
Purchases of property and equipment	(66)	(1)
Payments for patent licenses	—	(3)
Net cash used in investing activities	(66)	(4)
Cash flows from financing activities		
Proceeds from note payable from a related party	—	250
Net cash provided by financing activities	—	250
Net increase in cash	640	415
Cash, beginning of period	742	171
Cash, end of period	<u>\$ 1,382</u>	<u>\$ 586</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	<u>\$ 5</u>	<u>\$ —</u>
Purchase of property and equipment included in accounts payable	<u>\$ 29</u>	<u>\$ —</u>
Patent license costs included in accounts payable	<u>\$ —</u>	<u>\$ 5</u>

See accompanying notes to the unaudited condensed consolidated financial statements.

International Stem Cell Corporation and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. Description of Business, Basis of Presentation and Summary of Significant Accounting Policies

Description of Business

International Stem Cell Corporation (the “Company”) was organized in Delaware in June 2005 and is headquartered in San Diego, California. The Company is primarily a research and development company for the therapeutic market, which has focused on advancing potential clinical applications of human parthenogenetic stem cells (“hpSCs”) for the treatment of various diseases of the central nervous system and liver. The Company has the following wholly owned subsidiaries:

- Lifeline Cell Technology, LLC (“LCT”) – for the biomedical market, develops, manufactures and commercializes primary human cell research products, including over 200 human cell culture products such as frozen human “primary” cells and the reagents (called “media”) needed to grow, maintain and differentiate the cells;
- Lifeline Skin Care, Inc. (“LSC”) – for the anti-aging market, develops, manufactures and markets a category of anti-aging skin care products based on the Company’s proprietary parthenogenetic stem cell technology and small molecule technology;
- Cyto Therapeutics Pty. Ltd. (“Cyto Therapeutics”) – performs research and development (“R&D”) for the therapeutic market and is currently conducting clinical trials in Australia for the use of ISC-hpNSC® in the treatment of Parkinson’s disease.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) and the rules and regulations of the U.S. Securities and Exchange Commission (the “SEC”) applicable to interim financial statements. Certain information and notes normally included in annual financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to those rules and regulations. The unaudited interim condensed consolidated financial statements reflect all adjustments consisting of normal recurring adjustments which, in the opinion of management, are necessary for a fair statement of the Company’s condensed consolidated financial statements. The operating results for the three and six months ended June 30, 2023 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2023. The condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto for the year ended December 31, 2022 included in the Company’s annual report on Form 10-K filed with the SEC on March 30, 2023.

Liquidity and Going Concern

The Company had an accumulated deficit of approximately \$109.9 million as of June 30, 2023. The Company has historically incurred net losses and negative operating cash flows annually, noting the net income recognized during the three and six months ended June 30, 2023 was from non-recurring other income provided by the Employee Retention Credit (see Note 9 for further discussion). Without the Employee Retention Credit, the Company would have incurred net losses and negative operating cash flows. The Company has generated no revenue from its therapeutic product candidates. Unless the Company obtains additional financing, the Company does not have sufficient cash on hand to sustain operations for at least twelve months from the issuance date of these condensed consolidated financial statements.

There can be no assurance that the Company will be successful in maintaining normal operating cash flow or obtaining additional funding. These circumstances raise substantial doubt about the Company’s ability to continue as a going concern. For the foreseeable future, the Company’s ability to continue its operations is dependent upon its ability to obtain additional financing. The accompanying condensed consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classifications of liabilities that may result from the outcome of the uncertainty concerning the Company’s ability to continue as a going concern.

The Company continues to evaluate various financing sources and options to raise working capital to help fund current research and development programs and operations. The Company plans to obtain significant additional funding from sources, including through

debt and equity financing, license arrangements, grants and/or collaborative research arrangements to sustain its operations and develop products.

The timing and degree of any future capital requirements will depend on several factors, including:

- the accuracy of the assumptions underlying the estimates for capital needs;
- the extent that revenues from sales of LSC and LCT products cover the related costs and provide capital;
- scientific progress in research and development programs;
- the magnitude and scope of the Company's research and development programs and its ability to establish, enforce and maintain strategic arrangements for research, development, clinical testing, manufacturing and marketing;
- the progress with preclinical development and clinical trials;
- the time and costs involved in obtaining regulatory approvals;
- the costs involved in preparing, filing, prosecuting, maintaining, defending and enforcing patent claims;
- the number and type of product candidates that the Company decides to pursue; and
- demand from the Company's largest original equipment manufacturer customers.

Additional debt financing may be expensive and require the Company to pledge all or a substantial portion of its assets. If additional funds are obtained through arrangements with collaborative partners, these arrangements may require the Company to relinquish the rights to some of its technologies, product candidates, or products that the Company would otherwise seek to develop and commercialize on its own. Furthermore, if sufficient capital is not available, the Company may be required to delay, reduce the scope of, or eliminate one or more of its product initiatives. The Company's failure to raise capital or enter into related arrangements when needed would have a negative impact on its financial condition.

Principles of Consolidation and Foreign Currency Transactions

The condensed consolidated financial statements include the accounts of International StemCell Corporation and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. The functional currency of the Company and its wholly owned subsidiaries is the U.S. dollar. Monetary assets and liabilities that are not denominated in the functional currency are remeasured each reporting period into U.S. dollars at foreign currency exchange rates in effect at the respective balance sheet date. Non-monetary assets and liabilities and equity are remeasured at the historical exchange rates. Revenue and expenses are remeasured at the average rate in effect on the date of the transaction. Net realized and unrealized gains and losses from foreign currency transactions and remeasurement are reported in general and administrative expense in the accompanying condensed consolidated statements of operations and were not material for the periods presented.

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. Significant estimates include patent life (remaining legal life versus remaining useful life), inventory carrying values, and the fair value of stock option grants using the Black-Scholes option valuation model. By their nature, estimates are subject to an inherent degree of uncertainty and actual results could differ from these estimates.

Segments

The Company's chief operating decision-maker reviews financial information presented on a consolidated basis, accompanied by disaggregated information for each reportable company's statement of operations. The Company operates the business on the basis of three reporting segments: ISCO – therapeutic market; LCT – biomedical market, and; LSC – anti-aging market.

Inventory, net

Inventory is accounted for using the average cost and first-in, first-out ("FIFO") methods for LCT cell culture media and reagents, average cost and specific identification methods for LSC products, and specific identification method for other LCT products. Inventory balances are stated at the lower of cost or net realizable value. Laboratory supplies used in the research and development process are expensed as consumed. LCT's inventory has a long product life cycle, does not have a shelf life when frozen, and future demand is

uncertain. At each reporting period, the Company estimates its reserve allowance for excess and obsolete inventory using historical sales data and inventory turnover rates. The establishment of a reserve for excess and obsolete inventory establishes a new cost basis in inventory. If the Company is able to sell previously reserved inventory, the related reserves and inventory balances would be reduced in the period of sale. The value of the inventory that is not expected to be sold within twelve months of the current reporting period is classified as non-current inventory on the accompanying condensed consolidated balance sheets.

Accounts Receivable, net

Trade accounts receivable are recorded at the invoice value, net of discounts, and are not interest bearing. Accounts receivable primarily consist of trade accounts receivable from the sales of LCT's products as well as LSC trade receivable amounts related to spa and distributor sales. The Company considers receivables past due based on the contractual payment terms. The Company measures expected credit losses for financial instruments at each reporting date based on historical experience, current conditions and reasonable forecasts. The allowance for doubtful accounts represents the Company's estimate of expected credit losses relating to these factors. Amounts are written off against the allowances for doubtful accounts when the Company determines that a customer account is uncollectible. As of June 30, 2023 and December 31, 2022, the Company's allowance for doubtful accounts was immaterial.

Intangible Assets

Intangible assets consist of acquired patent licenses and capitalized legal fees related to the acquisition, filing, maintenance, and defense of patents and trademarks. Amortization begins once the patent is issued by the appropriate authoritative bodies. In the period in which a patent application is rejected or efforts to pursue the patent are abandoned, all the related accumulated capitalized costs are expensed. Patents and other intangible assets are amortized on a straight-line basis over the useful life of the underlying patent, which is generally 15 years. All amortization expense related to intangible assets is included in general and administrative expenses in the accompanying condensed consolidated statements of operations.

Leases

The Company determines if an arrangement is a lease at inception. Operating leases are included in right-of-use assets, operating lease obligations, current, and operating lease obligations, net of current portion, on the Company's consolidated balance sheets.

Right-of-use assets and lease liabilities are recognized at the lease commencement date based on the present value of future minimum lease payments over the lease term. As the Company's leases do not provide an implicit rate, the Company uses a discount rate based on its estimated incremental borrowing rate to determine the right-of-use asset and operating lease liabilities to be recognized. The Company determines its incremental borrowing rate based on the terms and lease payments of its operating leases and what it would normally pay to borrow, on a collateralized basis, over similar terms for an amount equal to the lease payments. Operating lease expense is recognized on a straight-line basis over the lease term. In addition, the Company does not separate lease components from non-lease components.

Long-Lived Asset Impairment

The Company reviews long-lived assets for impairment when events or changes in circumstances ("triggering event") indicate that the carrying value of an asset or group of assets may not be recovered. If a triggering event is determined to have occurred, the carrying value of an asset or group of assets is compared to the future undiscounted cash flows expected to be generated by the asset or group of assets. If the carrying value exceeds the undiscounted cash flows of the asset or group of assets, then an impairment exists, which is measured as the excess of fair value over the asset or asset group's carrying value. Fair value is generally determined using the asset's expected future discounted cash flows or market value, if readily determinable.

Revenue Recognition

The Company's revenue consists primarily of sales of products from its two revenue-generating operating segments, the biomedical market (LCT) and anti-aging market (LSC). The anti-aging market sells products solely through the ecommerce channel. The biomedical market sells primary human cell research products with two product categories, cells and media, which are sold both domestically and internationally. The biomedical market also offers performance of quality control (QC) testing services. No revenue from services was earned during the three and six months ended June 30, 2023 and 2022.

The following table presents the Company's revenue disaggregated by segment, product group, and geography (in thousands, except percentages):

Biomedical market:

	Three Months Ended June 30, 2023				Six Months Ended June 30, 2023			
	Domestic	International	Total	% of Total	Domestic	International	Total	% of Total
			Revenues	Revenues			Revenues	Revenues
Biomedical products								
Cells	\$ 407	\$ 116	\$ 523	32%	\$ 937	\$ 308	\$ 1,245	36%
Media	971	132	1,103	68%	1,955	294	2,249	64%
Total	<u>\$ 1,378</u>	<u>\$ 248</u>	<u>\$ 1,626</u>	<u>100%</u>	<u>\$ 2,892</u>	<u>\$ 602</u>	<u>\$ 3,494</u>	<u>100%</u>

	Three Months Ended June 30, 2022				Six Months Ended June 30, 2022			
	Domestic	International	Total	% of Total	Domestic	International	Total	% of Total
			Revenues	Revenues			Revenues	Revenues
Biomedical products								
Cells	\$ 306	\$ 175	\$ 481	27%	\$ 643	\$ 284	\$ 927	26%
Media	1,164	150	1,314	73%	2,377	262	2,639	74%
Total	<u>\$ 1,470</u>	<u>\$ 325</u>	<u>\$ 1,795</u>	<u>100%</u>	<u>\$ 3,020</u>	<u>\$ 546</u>	<u>\$ 3,566</u>	<u>100%</u>

Anti-aging market:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Skin care sales channels	\$ 215	\$ 232	\$ 433	\$ 481

Contract terms for the unit price, quantity, shipping and payment are governed by sales agreements, invoices or online order forms, which the Company considers to be a customer's contract. The unit price is considered the observable stand-alone selling price for the performance obligation(s) within the arrangements. Any promotional or volume sales discounts are applied evenly to the units sold for purposes of calculating standalone selling price.

The Company recognizes revenue when its customer obtains control of the promised goods or services in an amount that reflects the consideration which the entity expects to receive in exchange for those goods or services. Product sales generally consist of a single performance obligation that the Company satisfies at a point in time (i.e., upon delivery of the product).

For LSC products, ecommerce sales are primarily paid through credit card charges. The anti-aging and biomedical products' standard payment terms for its customers are generally 30 days after the Company satisfies the performance obligation(s).

The Company elects to account for shipping and handling costs, recognized as cost of sales, as activities to fulfill the promise to transfer the goods to a customer. As a result, no consideration is allocated to shipping and handling costs. Rather, the Company accrues the cost of shipping and handling upon shipment of the product, and all contract revenue (i.e., the transaction price) is recognized at the same time.

Variable Consideration

The Company records revenue from customers in an amount that reflects the consideration it expects to be entitled to after transferring control of those goods or services to a customer. From time to time, the Company offers sales promotions on its products such as discounts and free product offers. Variable consideration is estimated at contract inception only to the extent that it is probable that a significant reversal of revenue will not occur and is updated at the end of each reporting period as additional information becomes available.

Contract Balances

The Company records a receivable when it has an unconditional right to receive consideration after a performance obligation is satisfied. As of June 30, 2023 and December 31, 2022, accounts receivable, net, totaled \$662 thousand and \$747 thousand, respectively.

During the three and six months ended June 30, 2023 and 2022, the Company did not incur any material write-offs of its accounts receivable.

Practical Expedients

The Company has elected the practical expedient to not determine whether contracts with customers contain significant financing components. The Company pays commissions on certain sales for its biomedical and anti-aging product markets once the customer payment has been received, which are accrued at the time of sale. The Company generally expenses sales commissions when incurred because the amortization period would be one year or less. These costs are recorded within selling and marketing expenses. In addition, the Company has elected to exclude sales taxes consideration from the determined transaction price.

Cost of Sales

Cost of sales consists primarily of salaries and benefits associated with employee efforts expended directly on the production of the Company's products as well as related direct materials, shipping costs, general laboratory supplies and an allocation of overhead.

Research and Development Costs

Research and development costs, which are expensed as incurred, primarily consist of salaries and benefits associated with research and development personnel, overhead and occupancy costs, contract services costs, and amortization of license costs for technology used in research and development with alternative future uses, offset by the research and development tax credit provided by the Australian Taxation Office for qualified expenditures.

Australian Research and Development Tax Credit

The Company's wholly owned subsidiary, Cyto Therapeutics, conducts various research and development activities on the Company's product candidates in Australia. Under Australian tax law, the Australian Taxation Office provides for a refundable tax credit in the form of a cash refund equal to 43.5% of qualified research and development expenditures, not to exceed established thresholds. The Australian Research and Development tax incentive program is a self-assessment process and the Australian Government has the right to review the Company's qualifying programs and related expenditures for a period of four years. If such a review were to occur and, as a result of the review and failure of a related appeal, the qualified program and related expenditures were disqualified, the respective research and development refunds could be recalled with penalties and interest.

The refundable tax credit does not depend on the Company's generation of future taxable income or ongoing tax status or position. Accordingly, the credit is not considered an element of income tax accounting under ASC 740 "Income Taxes". The Company uses the grant accounting model by analogy to International Accounting Standards (IAS) 20 to account for the refundable tax credit from the Australian government. The Company recognizes the research and development tax credit as a reduction to research and development expense when there is reasonable assurance that the tax credit will be received, the relevant expenses have been incurred, and the amount can be reliably measured. The Company recognized a research and development tax credit receivable of \$99 thousand and zero as of June 30, 2023 and December 31, 2022, respectively, within prepaid expenses and other current assets on the accompanying condensed consolidated financial statements. During the six months ended June 30, 2023 and 2022, the Company recognized a reduction in research and development expenses of \$99 thousand and \$80 thousand, respectively.

Stock-Based Compensation

The cost of a stock-based award is measured at the grant date based on the estimated fair value of the award. Stock-based compensation is recognized as expense on a straight-line basis, net of forfeitures, which are recognized as incurred, over the requisite service period of the award. The fair value of stock options is estimated using the Black-Scholes option valuation model, which requires the input of subjective assumptions, including price volatility of the underlying stock, risk-free interest rate, dividend yield, and expected life of the option.

Employee Retention Credit

Similar to the Australian Research and Development tax credit, the Company uses the grant accounting model by analogy to International Accounting Standards (IAS) 20 to account for the refundable Employee Retention tax credit from the U.S. government. The Company recognized the refundable tax credit as other income when there was reasonable assurance that the tax credit will be received, the relevant expenses have been incurred, and the amount can be reliably measured. Laws and regulations concerning government programs, including the ERC, are complex and subject to varying interpretations. Claims made under these programs may

also be subject to retroactive audit and review. While the Company does not believe there is a basis for estimation of an audit or recapture risk at this time, there can be no assurance that regulatory authorities will not challenge the Company's claim to the ERC in a future period. See Note 9 for further discussion.

Net Income (Loss) Per Share

Basic net income (loss) per share attributable to common stockholders is calculated by dividing the net income (loss) attributable to common stockholders by the weighted-average number of common shares outstanding during the period. Diluted net income per share attributable to common stockholders is computed by dividing the net income attributable to common stockholders by the weighted-average number of common stock equivalents outstanding for the period determined using the treasury and two class or "if-converted" method. The two class method is not applicable during periods with a net loss, as the holders of the convertible preferred stock have no obligation to fund losses. Potentially dilutive common stock equivalents are comprised of stock options and convertible preferred stock.

The following table details the computation of basic and diluted net income (loss) per common share as follows (\$ in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
EPS Numerator				
Net income (loss)	\$ 492	\$ (2)	\$ 458	\$ (11)
Less: undistributed earnings allocated to participating securities	(233)	—	(217)	—
Net income (loss) attributable to common stockholders - basic and diluted	\$ 259	\$ (2)	\$ 241	\$ (11)
EPS Denominator				
Weighted-average number of common shares outstanding - basic and diluted	8,004,389	8,004,389	8,004,389	8,004,389
Net income (loss) per share attributable to common stockholders - basic and diluted	<u>\$ 0.03</u>	<u>\$ —</u>	<u>\$ 0.03</u>	<u>\$ —</u>

For the three and six months ended June 30, 2023 and 2022, the following common stock options and convertible preferred stock were not included in the diluted net income (loss) per share calculation because the effect would have been anti-dilutive:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Employee stock options	7,315,026	6,863,092	7,088,020	6,863,092
Redeemable convertible preferred stock	2,457,143	2,457,143	2,457,143	2,457,143
Non-redeemable convertible preferred stock	4,764,068	3,619,379	4,764,068	3,619,379
Total	<u>14,536,237</u>	<u>12,939,614</u>	<u>14,309,231</u>	<u>12,939,614</u>

Customer Concentrations

For the three months ended June 30, 2023 and 2022, one customer accounted for approximately 44% and 46% of consolidated revenues, respectively. For the six months ended June 30, 2023 and 2022, one customer accounted for approximately 46% of consolidated revenues in both periods. As of both June 30, 2023 and December 31, 2022, the same customer accounted for approximately 50% and 73% of accounts receivable, net, respectively. No other single customer accounted for more than 10% of revenues for the periods then ended for any segment.

Recently Issued Accounting Pronouncements

In August 2020, the FASB issued ASU No. 2020-06, Debt – Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging – Contracts in Entity's Own Equity (Subtopic 815-40) ("ASU 2020-06"). ASU 2020-06 simplifies the accounting for convertible debt instruments by reducing the number of accounting models and the number of embedded features that could be recognized separately from the host contract. Consequently, more convertible debt instruments will be accounted for as a single liability measured at its amortized cost, as long as no other features require bifurcation and recognition as derivatives. ASU 2020-06 also requires use of the if-converted method in the diluted earnings per share calculation for convertible instruments. ASU 2020-06 is effective for fiscal years beginning after December 15, 2023, and interim periods within those fiscal years for smaller reporting companies, with early adoption permitted. The new standard will be effective for the Company on January 1, 2024 or at such earlier

time where it is no longer a smaller reporting company. The Company is currently evaluating the potential impact that this standard may have on its consolidated financial statements and related disclosures.

Recently Adopted Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-13, Financial Instruments— Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (“ASU 2016-13”). The ASU introduced a new credit loss methodology, the Current Expected Credit Losses (“CECL”) methodology, which requires earlier recognition of credit losses, while also providing additional transparency about credit risk. The CECL methodology utilizes a lifetime “expected credit loss” measurement objective for the recognition of credit losses for loans, held-to maturity debt securities, trade receivables and other receivables measured at amortized cost at the time the financial asset is originated or acquired. Subsequent to the issuance of ASU 2016-13, the FASB issued several additional ASUs to clarify implementation guidance, provide narrow-scope improvements and provide additional disclosure guidance. In November 2019, the FASB issued an amendment making this ASU effective for fiscal years beginning after December 15, 2022 for smaller reporting companies. The Company adopted ASC 2016-13 on January 1, 2023. The adoption of this standard did not have a material impact on the Company's condensed consolidated financial statements.

2. Inventory

The components of inventory are as follows (in thousands):

	June 30, 2023	December 31, 2022
Raw materials	\$ 612	\$ 615
Work in process	535	498
Finished goods	1,142	1,194
	2,289	2,307
Less: allowance for inventory excess and obsolescence	(667)	(637)
Total current and non-current inventory, net	<u>\$ 1,622</u>	<u>\$ 1,670</u>
Inventory, net	\$ 1,296	\$ 1,384
Non-current inventory	326	286
Total current and non-current inventory, net	<u>\$ 1,622</u>	<u>\$ 1,670</u>

3. Prepaid Expenses and Other Current Assets

The components of prepaid and other current assets are as follows (in thousands):

	June 30, 2023	December 31, 2022
Prepaid expenses	\$ 213	\$ 64
Australian research and development tax credit	99	—
Other current assets	32	26
Total prepaid expenses and other current assets	<u>\$ 344</u>	<u>\$ 90</u>

4. Property and Equipment

Property and equipment consist of the following (in thousands):

	June 30, 2023	December 31, 2022
Machinery and equipment	\$ 1,602	\$ 1,603
Computer equipment and software	221	217
Office equipment	88	89
Leasehold improvements	581	558
Construction in progress	37	—
	2,529	2,467
Less: accumulated depreciation and amortization	(2,273)	(2,219)
Property and equipment, net	<u>\$ 256</u>	<u>\$ 248</u>

Depreciation and amortization expense for the three months ended June 30, 2023 and 2022 was \$27 thousand and \$35 thousand, respectively. Depreciation and amortization expense for the six months ended June 30, 2023 and 2022 was \$58 thousand and \$72 thousand, respectively. During the three and six months ended June 30, 2023, the Company had immaterial disposals of property and equipment that had been depreciated and amortized in full and had no impact on the accompanying condensed consolidated statements of operations. There were no disposals of property and equipment for the three and six months ended June 30, 2022.

5. Intangible Assets

Intangible Assets consist of the following (in thousands):

	June 30, 2023	December 31, 2022
Patents	\$ 1,286	\$ 1,286
Less: accumulated amortization	(524)	(483)
	762	803
Indefinite life logos and trademarks	75	75
Intangible assets, net	<u>\$ 837</u>	<u>\$ 878</u>

Amortization expense for the three months ended June 30, 2023 and 2022 was \$21 thousand and \$20 thousand, respectively. Amortization expense for the six months ended June 30, 2023 and 2022 was \$41 thousand and \$39 thousand, respectively.

6. Convertible Preferred Stock and Stockholders' Deficit

Convertible Preferred Stock

As of June 30, 2023 and December 31, 2022, the Company was authorized to issue 20,000,000 shares of preferred stock, \$0.001 par value per share. The Company designated 50 shares of Series D redeemable convertible preferred stock and 10,004,310 shares of Series B, Series G, and Series I-2 non-redeemable convertible preferred stock.

Non-Redeemable Convertible Preferred Stock

The Company's Series B, Series G, and Series I-2 non-redeemable convertible preferred stock has been classified as equity on the accompanying condensed consolidated balance sheets.

The authorized, issued, and outstanding shares of non-redeemable convertible preferred stock as of June 30, 2023 consist of the following:

	Shares Authorized	Shares Issued and Outstanding	Liquidation Preference	Carrying Value
			(in thousands)	
Series B	5,000,000	250,000	\$ 479	\$ —
Series G	5,000,000	5,000,000	5,000	5
Series I-2	4,310	4,310	4,310	—
Total	<u>10,004,310</u>	<u>5,254,310</u>	<u>\$ 9,789</u>	<u>\$ 5</u>

The authorized, issued and outstanding shares of non-redeemable convertible preferred stock as of December 31, 2022 consisted of the following:

	Shares Authorized	Shares Issued and Outstanding	Liquidation Preference	Carrying Value
			(in thousands)	
Series B	5,000,000	250,000	\$ 471	\$ —
Series G	5,000,000	5,000,000	5,000	5
Series I-2	4,310	4,310	4,310	—
Total	<u>10,004,310</u>	<u>5,254,310</u>	<u>\$ 9,781</u>	<u>\$ 5</u>

Series D Preferred Stock Redemption

The Company's Series D redeemable convertible preferred stock contains a contingent redemption feature that is not solely within the Company's control. Accordingly, the Series D redeemable convertible preferred stock is classified in temporary equity (outside of permanent equity) on the accompanying condensed consolidated balance sheets. At June 30, 2023, Management concluded the contingency is not probable of being resolved. The Company will continue to monitor the probability of the contingency event at each reporting date.

Dividends

Holders of the Company's convertible preferred stock are entitled to participating dividends with common stock when and if declared by the Company's board of directors. The Series D and G convertible preferred stock previously had rights to cumulative dividends in liquidation whether declared or not declared. Since the holders waived the rights to such dividends in prior years, this does not have an ongoing impact. No dividends have been declared during the six months ended June 30, 2023.

Liquidation

Liquidation preference among classes of preferred shares is first with Series D with priority followed by Series G, Series B and Series I-2 on the proceeds from any sale or liquidation of the Company in an amount equal to the purchase price of shares plus (in the case of the Series B) an amount equal to 1% of the Series B original issue price for every two calendar months from February 1, 2008. Following the satisfaction of the liquidation preferences, all shares of common stock participate in any remaining distribution.

Conversion

The shares of convertible preferred stock are convertible into one share of common stock at any time, at the option of the holder. The conversion rates of the Series B, Series D, and Series I-2 are subject to anti-dilution adjustments whereby, subject to specified exceptions, if the Company issues equity securities or securities convertible into equity at a price below the applicable conversion price of the Series B, Series D, and Series I-2, the conversion price of each such series shall be adjusted downward to equal the price of the new securities. The conversion rate of the Series G is subject to a weighted-average adjustment in the event of the issuance of additional shares of common stock below the conversion price, subject to specified exceptions. The conversion price of the Series I-2 are also subject to certain resets as set forth in the Certificates of Designation, including a reverse stock split.

The following table summarizes the conversion ratio of shares of common stock into which each share of convertible preferred stock can be converted as of June 30, 2023:

	Initial Conversion Price		Current Conversion Price		Conversion Ratio to Common Stock
Series B	\$	75.00	\$	0.14	7.14
Series D	\$	37.50	\$	1.75	57,142.86
Series G	\$	60.00	\$	9.69	0.10
Series I-2	\$	1.75	\$	1.75	571.43

Common Stock

As of June 30, 2023 and December 31, 2022, the Company was authorized to issue 120,000,000 shares of common stock, \$0.001 par value per share.

Equity Incentive Plans

The Company adopted the 2006 Equity Participation Plan (as amended the “2006 Plan”), which provides for the grant of stock options, restricted stock and other equity-based awards. Awards for up to 100,000 shares may be granted to employees, directors and consultants under this Plan. The options granted under the 2006 Plan may be either qualified or non-qualified options. Options may be granted with different vesting terms and expire no later than 10 years from the date of grant. The 2006 Plan expired on November 16, 2016. Options and other equity-based awards granted prior to the expiration of the 2006 Plan will continue in effect until the option or award is exercised or terminates pursuant to its terms. No new awards may be granted under the 2006 Plan following its expiration.

The Company adopted the 2010 Equity Participation Plan, as amended (the “2010 Plan”), which provides for the grant of stock options, restricted stock and other equity-based awards. Awards for up to 9,700,000 shares may be granted to employees, directors and consultants under the 2010 Plan. The options granted under the 2010 Plan may be either qualified or non-qualified options and the 2010 Plan is set to terminate in March 2030. Options may be granted with different vesting terms and expire no later than 10 years from the date of grant.

Stock Options

The Company's stock option activity, involving stock options issued to employees, directors and consultants under the 2006 Plan and the 2010 Plan, for the six months ended June 30, 2023 is summarized below:

	Number of Outstanding Options	Weighted- Average Exercise Price	Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2022	6,858,492	\$ 1.02		
Granted	2,450,410	\$ 0.14		
Expired	(1,354)	\$ 40.50		
Outstanding at June 30, 2023	9,307,548	\$ 0.78	7.69	\$ —
Vested and expected to vest at June 30, 2023	8,838,409	\$ 0.81	7.59	\$ —
Exercisable at June 30, 2023	5,273,248	\$ 1.19	6.35	\$ —

The fair value of stock options granted is estimated at the date of grant using the Black-Scholes option valuation model. The weighted-average assumptions used in the Black-Scholes option valuation model to determine the fair value of stock options granted for the three and six months ended June 30, 2023 and 2022 were as follows:

	Three and Six Months Ended June 30,	
	2023	2022
Risk-free interest rate	3.99%	2.86%
Expected stock price volatility	89.50%	90.29%
Expected dividend yield	0%	0%
Expected life of options (in years)	5.60	5.71
Weighted-average grant date fair value	\$0.10	\$0.33

Total stock-based compensation expense recorded in the condensed consolidated statements of operations is as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Cost of sales	\$ 1	\$ 1	\$ 2	\$ 3
Research and development	21	10	42	16
Selling and marketing	2	1	3	4
General and administrative	84	78	169	158
Total	<u>\$ 108</u>	<u>\$ 90</u>	<u>\$ 216</u>	<u>\$ 181</u>

Unrecognized compensation expense related to stock options as of June 30, 2023 was \$657 thousand, which is expected to be recognized over a weighted-average period of 1.81 years.

Common Stock Reserved for Future Issuance

As of June 30, 2023, the Company had shares of common stock reserved for future issuance as follows:

Options outstanding	9,307,548
Common stock available for issuance under the 2010 Plan	225,510
Redeemable convertible preferred stock	2,457,143
Non-redeemable convertible preferred stock	4,764,068
Total	<u>16,754,269</u>

7. Related Party Transactions

Related party lease arrangements

On October 26, 2021, the Company and S Real Estate Holdings, LLC, a related party, entered jointly into a lease agreement with Rehco Holdings, LLC (the "Lease"), for the purpose of establishing a new corporate headquarters, including corporate, R&D, and manufacturing operations. The lease commenced on November 1, 2021 and expires on December 31, 2026 with no options to extend or renew. The lease was personally guaranteed by Dr. Russell Kem, the Company's Executive Vice President and Chief Scientific Officer.

On December 15, 2021, the Company and S Real Estate Holdings LLC entered into a co-tenant agreement, whereby the Company and S Real Estate Holdings LLC agreed to allocate portions of the base rent and variable charges, including insurance, maintenance costs, taxes and operating expenses, between the parties. During the term of the Lease, the Company will be liable for 40% of all costs incurred in connection with the lease, while S Real Estate Holdings LLC will be liable for the remaining 60%.

Related party note payable

As of December 31, 2021, the Company had an unsecured, non-convertible promissory note, with a principal outstanding amount of \$2.7 million (the "Note") and accrued interest of approximately \$300 thousand with Dr. Andrey Semechkin, the Company's Chief Executive Officer and Co-Chairman of the Board of Directors. The outstanding principal amount under the Note accrued interest at a rate of 4.5% per annum. The outstanding principal and accrued interest on the Note was due and payable on January 15, 2022 and could be pre-paid without penalty at any time.

On January 13, 2022, to obtain funding for working capital purposes, the Company issued an unsecured, non-convertible promissory note in the principal amount of \$2.9 million (the "Modified Note") to Dr. Semechkin. In exchange, Dr. Semechkin surrendered the Note and provided an additional \$250 thousand to the Company. The Modified Note, including outstanding amounts of principal and accrued interest, was due and payable on March 15, 2022.

On March 1, 2022, the Company and Dr. Andrey Semechkin restructured the Modified Note and agreed to extend the maturity date for an additional six-month period to September 15, 2022. On September 15, 2022, the Company and Dr. Andrey Semechkin extended the Modified Note for an additional six-month period to March 15, 2023. No other terms of the Modified Note were modified.

On September 15, 2022, the Noteholder surrendered the March 2022 Note, and the Company issued a new promissory note ("September 2022 Note"), which featured all the same terms as the previously outstanding note, with the exception of an extension of

the maturity date from September 15, 2022 to March 15, 2023. The September 2022 Note has a principal balance of \$2.9 million, an interest rate of 4.5%, and features optional prepayment terms. There were no debt issuance fees associated with this issuance.

On March 14, 2023, the Noteholder surrendered the September 2022 Note, and the Company issued a new promissory note ("March 2023 Note"), which featured all the same terms as the previously outstanding note, with the exception of an extension of the maturity date from March 15, 2023 to September 15, 2023. The March 2023 Note has a principal balance of \$2.9 million, an interest rate of 4.5%, and features optional prepayment terms. There were no debt issuance fees associated with this issuance. The amendments qualify as a troubled debt restructuring which did not result in a gain as the carrying amount of the debt was less than the total future cash payments of the restructured debt.

8. Commitments and Contingencies

Leases

The Company has three operating leases for real estate in California and Maryland:

- San Diego, California – corporate headquarters, including corporate, R&D, and manufacturing operations, with a termination date of December 2026, jointly leased with a related party (refer to Note 7 – Related Party Transactions, for further information) ("headquarter lease"). This lease contains no renewal or term extension options;
- San Diego, California – supplemental office space adjacent to the Company's corporate headquarters with a termination date of December 2026. This lease contains no renewal or term extension options; and
- Frederick, Maryland – mixed laboratory and administrative space with a term date of December 2025. The lease contains one renewal option for an additional three-year term through November 2028. The Company is reasonably certain it will not exercise this renewal option.

The headquarter lease commenced on November 1, 2021 and expires on December 31, 2026. At commencement, base rent due under the lease was approximately \$11 thousand and increases approximately 3.5% per annum over the lease term. The lease is subject to additional variable charges, including insurance, maintenance costs, taxes and operating expenses. Base rent and additional variable charges are shared between the Company and S Real Estate Holdings LLC, a related party, pursuant to a co-tenant agreement between the parties (refer to Note 7 – Related Party Transactions for further information). In addition, base rent for months two through five of the lease term were abated by 50%.

In November 2021, the Company entered into an operating lease for supplemental office space adjacent to its new corporate headquarters with the same landlord. The lease commenced on December 1, 2021 and expires on December 31, 2026 and is not subject to the co-tenant agreement with S Real Estate Holdings, LLC. At commencement, base rent due under the supplemental office lease was approximately \$4 thousand per month and increases at a fixed amount per annum over the lease term.

The Company's operating leases for real estate are subject to additional variable charges for common area maintenance and other variable costs. Variable costs for the three and six months ended June 30, 2023 and 2022 were immaterial. All operating lease expense is recognized on a straight-line basis over the lease term. For the three months ended June 30, 2023 and 2022, lease expense totaled \$71 thousand and \$72 thousand, respectively. For the six months ended June 30, 2023 and 2022, lease expense totaled \$142 thousand and \$145 thousand, respectively. As of June 30, 2023 and December 31, 2022, the Company had no finance leases.

Maturities of lease liabilities are as follows (in thousands):

Years ending December 31,		
2023 (remaining six months)	\$	169
2024		350
2025		360
2026		119
Total minimum lease payments		998
Less: imputed interest		(158)
Total future minimum lease payments		840
Less: operating lease liabilities, current		(252)
Operating lease liabilities, net of current portion	\$	<u>588</u>

9. Other Income

Other income is primarily attributable to the one-time receipt of the Employee Retention Tax Credit from the Internal Revenue Service (the "IRS"). As a response to the COVID-19 outbreak, the U.S. government enacted the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"), which contained a number of programs to assist workers, families and businesses. Part of the CARES Act provides an Employee Retention Credit ("ERC"), which is a refundable tax credit against certain employment taxes equal to 50% of qualified wages paid, up to \$10,000 per employee annually, from March 12, 2020 through January 1, 2021. Additional relief provisions were passed by the United States government, which extended and expanded the qualified wage caps on these credits to 70% of qualified wages paid through June 30, 2021 and 100% of qualified wages paid through December 31, 2021, up to \$10,000 per employee per quarter.

On January 6, 2023, the Company filed Form 941-X for the three months ended March 31, June 30 and September 30, 2021 to claim a refund for the ERC. The Company elected to account for the ERC under IAS 20 when there was reasonable assurance of receipt, which was determined to be when the notification of acceptance of Form 941-X was received by the IRS. In June 2023, the Company received confirmation from the IRS that changes to the Company's Q1, Q2 and Q3 941 forms amounting to \$224 thousand in the first quarter of 2021, \$238 thousand in the second quarter of 2021, and \$201 thousand in the third quarter of 2021 had been accepted. The Company received payment from the IRS related to the ERC during the second quarter of 2023 and recorded other income of \$663 thousand in the accompanying condensed consolidated statement of operations.

10. Segments

The Company operates the business on the basis of three reporting segments, the parent company and two business units: ISCO – therapeutic market; LCT – biomedical market; LSC – anti-aging market.

The Company does not measure the performance of its segments on any asset-based metrics. Therefore, segment information is presented only for the results of operations. Results of operations for the three and six months ended June 30, 2023 and 2022 by reporting segment were as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Revenues:				
Biomedical market	\$ 1,626	\$ 1,795	\$ 3,494	\$ 3,566
Anti-aging market	215	232	433	481
Total revenues	1,841	2,027	3,927	4,047
Operating expenses:				
Therapeutic market	606	609	1,183	1,233
Biomedical market	1,052	1,035	2,145	2,034
Anti-aging market	327	352	741	724
Total operating expenses	1,985	1,996	4,069	3,991
Operating income (loss):				
Therapeutic market	(606)	(609)	(1,183)	(1,233)
Biomedical market	574	760	1,349	1,532
Anti-aging market	(112)	(120)	(308)	(243)
Total operating loss	(144)	31	(142)	56
Other income (expense), net:				
Therapeutic market	636	(33)	600	(67)
Total other income (expense), net	636	(33)	600	(67)
Net income (loss):				
Therapeutic market	30	(642)	(583)	(1,300)
Biomedical market	574	760	1,349	1,532
Anti-aging market	(112)	(120)	(308)	(243)
Total net income (loss)	<u>\$ 492</u>	<u>\$ (2)</u>	<u>\$ 458</u>	<u>\$ (11)</u>

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

The following discussion of our financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements and related notes and other financial information included elsewhere herein. This information should also be read in conjunction with our audited historical consolidated financial statements which are included in our Form 10-K for the fiscal year ended December 31, 2022 ("Form 10-K"). The discussion contains forward-looking statements, such as our plans, expectations and intentions (including those related to clinical trials and business and expense trends), that are based upon current expectations and that involve risks and uncertainties. Our actual results may differ significantly from management's expectations. The factors that could affect these forward-looking statements are discussed in the Risk Factors included in our Form 10-K. This discussion should not be construed to imply that the results discussed herein will necessarily continue into the future, or that any expectations expressed herein will necessarily be indicative of actual operating results in the future. Such discussion represents only the best assessment by our management.

Business Overview

We are a clinical stage biotechnology company focused on therapeutic and biomedical product development with multiple long-term therapeutic opportunities and two revenue-generating businesses offering potential for increased future revenue. We have generated aggregate product revenues from our two commercial businesses of \$1.8 million and \$2.0 million for the three months ended June 30, 2023 and 2022, respectively. We have generated aggregate product revenues from our two commercial businesses of \$3.9 million and \$4.0 million for the six months ended June 30, 2023 and 2022, respectively. We currently have no revenue generated from our principal operations in therapeutic and clinical product development.

Our products are based on multi-decade experience with human cell culture and a proprietary type of pluripotent stem cells, human parthenogenetic stem cells ("hpSCs"). Our hpSCs are comparable to human embryonic stem cells ("hESCs") in that they have the potential to be differentiated into many different cells in the human body. However, the derivation of hpSCs does not require the use of fertilized eggs or the destruction of viable human embryos and also offers the potential for the creation of immune-matched cells and tissues that are less likely to be rejected following transplantation. Our collection of hpSCs, known as UniStemCell™, currently consists of 15 stem cell lines. We have facilities and manufacturing protocols that comply with the requirements of Good Manufacturing Practice (GMP) standards as promulgated by the U.S. Code of Federal Regulations and enforced by the United States Food and Drug Administration ("FDA").

Market Opportunity and Growth Strategy

Therapeutic Market – Clinical Applications of hpSCs for Disease Treatments

We are developing different cell types from our stem cells that may result in therapeutic products. We focus on applications where cell and tissue therapy is already proven but where there is an insufficient supply of functional cells or tissue.

We believe that the most promising potential clinical applications of our technology are Parkinson's disease ("PD"), traumatic brain injury ("TBI"), and stroke. Using our proprietary technologies and know-how, we are creating neural stem cells from hpSCs as a potential treatment of PD, TBI, and stroke.

PD: Our most advanced project is the neural stem cell program for the treatment of Parkinson's disease. In 2013, we published in Nature Scientific Reports the basis for our patent on a new method of manufacturing neural stem cells, which is used to produce the clinical-grade cells necessary for future clinical studies and commercialization. In 2014, we completed the majority of the preclinical research, establishing the safety profile of NSC in various animal species, including non-human primates. In June 2016, we published the results of a 12-month pre-clinical non-human primate study, which demonstrated the safety, efficacy and mechanism of action of the ISC- hpNSC®. In 2017, we dosed four patients in our Phase I trial of ISC-hpNSC®, human parthenogenetic stem cell-derived neural stem cells for the treatment of Parkinson's disease. We reported 12-month results from the first cohort and 6-month interim results of the second cohort at the Society for Neuroscience annual meeting (Neuroscience 2018) in November 2018. In April 2019, we announced the completion of subject enrollment, with the 12th subject receiving a transplantation of the highest dose of cells. There have been no safety signals or serious adverse effects seen to date as related to the transplanted ISC-hpNSC® cells.

We announced a successful completion of the dose escalating phase 1 clinical trial in June 2021. In terms of preliminary efficacy, where scores are compared against baseline before transplantation, we observed a potential dose-dependent response with an apparent peak effectiveness at our middle dose. The % OFF-Time, which is the time during the day when levodopa medication is not performing optimally and PD symptoms return, decreased an average 47% from the baseline at 12 months post transplantation in cohort 2. This trend continued through 24 months where the % OFF-Time in the second cohort dropped by 55% from the initial reading. The same was true for % ON-Time without dyskinesia, which is the time during the day when levodopa medication is performing optimally

without dyskinesia. The % ON-Time increased an average of 42% above the initial evaluation at 12 months post-transplantation in the second cohort.

Stroke: In August 2014, we announced the launch of a stroke program, evaluating the use of ISC-hpNSC® transplantation for the treatment of ischemic stroke using a rodent model of the disease. The Company has a considerable amount of safety data on ISC-hpNSC® from the Parkinson's disease program and, as there is evidence that transplantation of ISC-hpNSC® may improve patient outcomes as an adjunctive therapeutic strategy in stroke, having a second program that can use this safety dataset is therefore a logical extension. In 2015, the Company together with Tulane University demonstrated that NSC can significantly reduce neurological dysfunction after a stroke in animal models.

TBI: In October 2016, we announced the results of the pre-clinical rodent study, evaluating the use of ISC-hpNSC® transplantation for the treatment of TBI. The study was conducted at the University of South Florida Morsani College of Medicine. We demonstrated that animals receiving injections of ISC-hpNSC® displayed the highest levels of improvements in cognitive performance and motor coordination compared to vehicle control treated animals. In February 2019, we published the results of the pre-clinical study in *Theranostics*, a prestigious peer-reviewed medical journal. The publication titled, "Human parthenogenetic neural stem cell grafts promote multiple regenerative processes in a traumatic brain injury model," demonstrated that the clinical-grade neural stem cells used in our Parkinson's disease clinical trial, ISC-hpNSC®, significantly improved TBI-associated motor, neurological, and cognitive deficits without any safety issues.

Anti-Aging Cosmetic Market – Skin Care Products

Our wholly owned subsidiary Lifeline Skin Care, Inc. ("LSC") develops, manufactures and sells anti-aging skin care products based on two core technologies: encapsulated extract derived from hpSC and specially selected targeted small molecules. LSC's products include:

- ProPlus Advanced Defense Complex
- ProPlus Advanced Recovery Complex
- ProPlus Eye Firming Complex
- ProPlus Neck Firming Complex
- ProPlus Advanced Aquoues Treatment
- ProPlus Collagen Booster (Advanced Molecular Serum)
- ProPlus Elastin Booster
- ProPlus Brightening Toner

LSC's products are regulated as cosmetics. LSC's products are sold domestically through a branded website, Amazon, and ecommerce partners.

Biomedical Market – Primary Human Cell Research Products

Our wholly owned subsidiary Lifeline Cell Technology, LLC ("LCT") develops, manufactures and commercializes approximately 200 human cell culture products, including frozen human "primary" cells and reagents (called "media"), which are needed to grow, maintain, and differentiate the cells. LCT's scientists have used a standardized, methodical, scientific approach to basal medium optimization to systematically produce optimized products designed to culture specific human cell types and to elicit specific cellular behaviors. These techniques can also be used to produce products that do not contain non-human animal proteins, a feature desirable to the research and therapeutic markets. Each LCT cell product is quality tested for the expression of specific markers (to assure the cells are the correct type), proliferation rate, viability, morphology and absence of pathogens. Each cell system also contains associated donor information and all informed consent requirements are strictly followed. LCT's research products are marketed and sold by its internal sales force, OEM partners and LCT brand distributors in Europe and Asia.

Results of Operations

Comparison of the Three Months Ended June 30, 2023 and 2022

The following table summarizes our results of operations for the three months ended June 30, 2023 and 2022:

	2023	Three Months Ended June 30, 2022	\$ Change	% Change
Product sales	\$ 1,841	\$ 2,027	\$ (186)	-9%
Cost of sales	713	718	(5)	-1%
Profit margin	1,128	1,309	(181)	-14%
As a % of revenues	61 %	65 %		
General and administrative	918	872	46	5%
Selling and marketing	309	323	(14)	-4%
Research and development	45	83	(38)	-46%
Other income (expense), net	636	(33)	669	*
Net income (loss)	\$ 492	\$ (2)	\$ 494	*
As a % of revenues	27 %	0 %		
*Denotes a change in excess of 100%				

Product sales, net

Product sales for the three months ended June 30, 2023 were \$1,841 thousand compared to \$2,027 thousand for the three months ended June 30, 2022. The decrease of \$186 thousand, or 9%, was primarily attributable to a decrease of \$246 thousand in our media and other product sales, partially offset by an increase of \$26 thousand in our cell product sales in our Biomedical market segment. In addition, there was a decrease in our skin care product sales of approximately \$17 thousand as a result of the discontinuation of our professional line of anti-aging products, resulting in only one product line and less demand.

Cost of sales

Cost of sales for the three months ended June 30, 2023 were \$713 thousand, compared to \$718 thousand for the three months ended June 30, 2022. The decrease of \$5 thousand, or 1%, was a result of a decrease of approximately \$60 thousand in cost of goods sold due to an overall decrease in sales partially offset by unfavorable manufacturing variances and inventory adjustments of approximately \$55 thousand.

Profit margins have decreased approximately 4% for the three months ended June 30, 2023, as compared to the three months ended June 30, 2022 due to manufacturing inefficiencies.

Cost of sales consists primarily of salaries and benefits associated with employee efforts expended directly on the production of the Company's products, as well as related direct materials, general laboratory supplies and the allocation of overhead. We plan to continue to refine our manufacturing processes and supply chain management to improve the cost of sales as a percentage of revenue for both our LCT and LSC segments.

General and administrative expenses

General and administrative expenses for the three months ended June 30, 2023 were \$918 thousand, compared to \$872 thousand for the three months ended June 30, 2022. The increase of \$46 thousand, or 5%, was primarily attributable to a net increase in personnel-costs and consulting costs of approximately \$70 thousand and audit and accounting fees of approximately \$30 thousand. These increases were partially offset by decreases in insurance and licensing fees of approximately \$23 thousand and legal fees of approximately \$30 thousand.

Our general and administrative expenses consist primarily of employee-related expenses including salaries, bonuses, benefits, and stock-based compensation. Other significant costs include facility costs not otherwise included in or allocated to other departments, legal fees not relating to patents and corporate matters, and fees for accounting and consulting services.

Selling and marketing expenses

Selling and marketing expenses for the three months ended June 30, 2023 were \$309 thousand, compared to \$323 thousand for the three months ended June 30, 2022. The decrease of \$14 thousand, or 4%, was primarily attributable to decreases in personnel related costs, including commissions expense, and advertising and marketing related expenses of approximately \$40 thousand, partially offset by an increase in consultant costs of approximately \$26 thousand.

Our sales and marketing expenses consist primarily of employee-related expenses including salaries, bonuses, benefits, and stock-based compensation for our Biomedical and Anti-aging cosmetic businesses. Other significant costs include facility costs not otherwise included in or allocated to other departments, as well as marketing material costs, permits and licenses for ecommerce, and other advertising expenses.

Research and development expenses

Research and development expenses for the three months ended June 30, 2023 were \$45 thousand, compared to \$83 thousand for the three months ended June 30, 2022. The decrease of \$38 thousand, or 46%, was as a result of a decrease in general laboratory expenses and other patent related costs of approximately \$52 thousand and an increase in the Australian R&D tax credit of approximately \$20 thousand partially offset by an increase in personnel and consultant costs of approximately \$32 thousand.

Our research and development efforts are primarily focused on the development of treatments for Parkinson's disease, traumatic brain injury, and stroke. These projects are long-term investments that involve developing both new stem cell lines and new differentiation techniques that can provide higher purity populations of functional cells. Research and development expenses are expensed as incurred and are accounted for on a project-by-project basis. However, much of our research has potential applicability to each of our projects.

Other income (expense), net

Other income, net for the three months ended June 30, 2023 was \$636 thousand, compared to other expense, net of \$33 thousand for the three months ended June 30, 2022. Other income of \$671 thousand was largely attributable to the Employment Tax Credit refund (see Note 9 within the accompanying condensed consolidated financial statements for further discussion) received during the three months ended June 30, 2023, which was partially offset by other expense. Other expense in both periods relate to interest expense on our related party note payable.

Comparison of the Six Months Ended June 30, 2023 and 2022

The following table summarizes our results of operations for the six months ended June 30, 2023 and 2022:

	2023	Six Months Ended June 30, 2022	\$ Change	% Change
Product sales	\$ 3,927	\$ 4,047	\$ (120)	-3%
Cost of sales	1,537	1,443	94	7%
Profit margin	2,390	2,604	(214)	-8%
As a % of revenues	61%	64%		
General and administrative	1,718	1,704	14	1%
Selling and marketing	624	624	—	0%
Research and development	190	220	(30)	-14%
Other income (expense), net	600	(67)	667	*
Net income (loss)	\$ 458	\$ (11)	\$ 469	*
As a % of revenues	12%	0%		
*Denotes a change in excess of 100%				

Product sales, net

Product sales for the six months ended June 30, 2023 were \$3,927 thousand compared to \$4,047 thousand for the six months ended June 30, 2022. The decrease of \$120 thousand, or 3%, was primarily attributable to a decrease of \$451 thousand in our media and other product sales partially offset by an increase of \$289 thousand in our cells product sales in our Biomedical market segment. In addition,

there was a decrease in our skin care product sales of approximately \$48 thousand as a result of the discontinuation of our professional line of anti-aging products, resulting in only one product line and less demand.

Cost of sales

Cost of sales for the six months ended June 30, 2023 were \$1,537 thousand, compared to \$1,443 thousand for the six months ended June 30, 2022. The increase of \$94 thousand, or 7%, was as a result of an increase in cost of sales driven by unfavorable manufacturing variances and inventory adjustments of approximately \$117 thousand partially offset by a decrease in cost of sales due to an overall decrease in sales of approximately \$23 thousand.

Profit margins have decreased approximately 3% for the six months ended June 30, 2023, as compared to the six months ended June 30, 2022 due to manufacturing inefficiencies.

Cost of sales consists primarily of salaries and benefits associated with employee efforts expended directly on the production of the Company's products, as well as related direct materials, general laboratory supplies and the allocation of overhead. We plan to continue to refine our manufacturing processes and supply chain management to improve the cost of sales as a percentage of revenue for both our LCT and LSC segments.

General and administrative expenses

General and administrative expenses for the six months ended June 30, 2023 were \$1,718 thousand, compared to \$1,704 thousand for the six months ended June 30, 2022. The increase of \$14 thousand, or 1%, was primarily attributable to a net increase in consulting and other general overhead costs of approximately \$81 thousand and an increase in audit and accounting cost of approximately \$38 thousand which were partially offset by decreases in personnel-related costs, including relocation costs, of approximately \$27 thousand, insurance and licensing fees of approximately \$46 thousand and legal fees of approximately \$32 thousand for the six month period ended June 30, 2023 as compared to the six month period ended June 30, 2022.

Our general and administrative expenses consist primarily of employee-related expenses including salaries, bonuses, benefits, and stock-based compensation. Other significant costs include facility costs not otherwise included in or allocated to other departments, legal fees not relating to patents and corporate matters, and fees for accounting and consulting services.

Selling and marketing expenses

Selling and marketing expenses for the six months ended June 30, 2023 and June 30, 2022 were \$624 thousand in both periods. There was an increase in consulting, and advertising and marketing related efforts, of approximately \$48 thousand in the six months ended June 30, 2023 as compared to the six month period ended June 30, 2022, partially offset by a decrease in other general marketing related costs, including web site development costs, personnel related costs, and depreciation, for the six month period ended June 30, 2023 as compared to the six month period ended June 30, 2022.

Our sales and marketing expenses consist primarily of employee-related expenses including salaries, bonuses, benefits, and share-based compensation for our Biomedical and anti-aging cosmetic businesses. Other significant costs include facility costs not otherwise included in or allocated to other departments, as well as marketing material costs, permits and licenses for ecommerce, and other advertising expenses.

Research and development expenses

Research and development expenses for the six months ended June 30, 2023 were \$190 thousand, compared to \$220 thousand for the six months ended June 30, 2022. The decrease of \$30 thousand, or 14%, was a result of a decrease in general laboratory expenses and patent related costs of approximately \$78 thousand and an increase in the Australian R&D tax credit of approximately \$20 thousand partially offset by an increase in personnel and consultant costs of approximately \$66 thousand for the six months period ended June 30, 2023 as compared to the six month period ended June 30, 2022.

Our research and development efforts are primarily focused on the development of treatments for Parkinson's disease, traumatic brain injury, and stroke. These projects are long-term investments that involve developing both new stem cell lines and new differentiation techniques that can provide higher purity populations of functional cells. Research and development expenses are expensed as incurred and are accounted for on a project-by-project basis. However, much of our research has potential applicability to each of our projects.

Other income (expense), net

Other income, net for the six months ended June 30, 2023 was \$600 thousand, compared to other expense, net of \$67 thousand for the six months ended June 30, 2022. Other income of \$671 thousand was largely attributable to the Employment Tax Credit refund (see Note 9 within the accompanying condensed consolidated financial statements for further discussion) received during the three months ended June 30, 2023, which was partially offset by other expense. Other expense in both periods relate to interest expense on our related party note payable.

Liquidity and Capital Resources

The Company enters into contracts in the normal course of business with various third-party consultants and contract research organizations (“CRO”) for preclinical research, clinical trials and manufacturing activities. These contracts generally provide for termination upon notice. Actual expenses associated with these arrangements may be higher or lower due to various reasons, including but not limited to, progress of our development products, enrollment in clinical trials, and product and personnel delays due to COVID. Other short-term and long terms commitments that would affect liquidity include lease obligations as well as related party debt repayments.

As of June 30, 2023, we had an accumulated deficit of approximately \$109.9 million and have historically incurred net losses and negative operating cash flows. Substantially all of our operating losses have resulted from the funding of our research and development programs and general and administrative expenses associated with our operations. We had net income of \$458 thousand and incurred a net loss of \$11 thousand for the six months ended June 30, 2023 and 2022, respectively. As of June 30, 2023, we had cash of approximately \$1,382 thousand, compared to \$742 thousand as of December 31, 2022. Our primary use of cash is to continue to fund our research and development programs while maintaining and growing our revenue generating businesses.

Cash Flows

Comparison of the Six Months Ended June 30, 2023 and 2022

The following table provides information regarding our cash flows for the six months ended June 30, 2023 and 2022 (in thousands):

	Six Months Ended June 30,			
	2023		2022	
Net cash provided by operating activities	\$	706	\$	169
Net cash used in investing activities		(66)		(4)
Net cash provided by financing activities		—		250
Net increase in cash	\$	<u>640</u>	\$	<u>415</u>

Operating Cash Flows

For the six months ended June 30, 2023, net cash provided by operating activities was \$706 thousand, resulting primarily from our net income of \$458 thousand and net changes in operating assets and liabilities of \$213 thousand, consisting of decreases in operating lease liabilities of \$110 thousand, accounts receivable, net of \$85 thousand and inventory, net of \$48 thousand partially offset by increases in prepaid expenses and other current assets of \$254 thousand, accrued liabilities of \$13 thousand, accounts payable of \$9 thousand and deposits and other current assets of \$4 thousand. The decrease in cash was partially offset by net noncash adjustments of \$461 thousand, pertaining to recurring non-cash expenses, such as stock-based compensation, depreciation and amortization expense, non-cash operating lease expense, and interest expense on our related party note payable.

For the six months ended June 30, 2022, net cash provided by operating activities was \$169 thousand, attributable to our net loss of \$11 thousand and net changes in operating assets and liabilities of \$247 thousand, offset by net recurring non-cash adjustments of \$427 thousand.

Investing Cash Flows

Net cash used in investing activities for the six months ended June 30, 2023 was \$66 thousand, compared to \$4 thousand for the six months ended June 30, 2022. The increase was attributable to the purchase of property and equipment during the current period.

For the six months ended June 30, 2023, no net cash was provided by financing activities compared to \$250 thousand net cash provided for the six months ended June 30, 2022. Net cash provided for the six months ended June 30, 2022 was wholly attributable to proceeds from our related party note payable of \$250 thousand.

Funding Requirements

Management continues to evaluate various financing sources and options to raise working capital to help fund our current research and development programs and operations. We will need to obtain significant additional capital from equity and/or debt financings, license arrangements, grants and/or collaborative research arrangements to sustain our operations and develop products. Unless we obtain additional financing, we do not have sufficient cash on hand to sustain our operations at least through one year after the issuance date. The timing and degree of any future capital requirements will depend on many factors, including:

- the accuracy of the assumptions underlying our estimates for capital needs;
- the extent that revenues from sales of LSC and LCT products cover the related costs and provide capital;
- scientific progress in our research and development programs;
- the magnitude and scope of our research and development programs and our ability to establish, enforce and maintain strategic arrangements for research, development, clinical testing, manufacturing and marketing;
- our progress with preclinical development and clinical trials;
- the extent to which third party interest in Company's research and commercial products can be realized through effective partnerships;
- the time and costs involved in obtaining regulatory approvals;
- the costs involved in preparing, filing, prosecuting, maintaining, defending and enforcing patent claims; and
- the number and type of product candidates that we pursue.

Our failure to raise capital or enter into applicable arrangements when needed would have a negative impact on our financial condition. Additional debt financing may be expensive and require us to pledge all or a substantial portion of its assets. Further, if additional funds are obtained through arrangements with collaborative partners, these arrangements may require us to relinquish rights to some of its technologies, product candidates or products that we would otherwise seek to develop and commercialize on its own. If sufficient capital is not available, we may be required to delay, reduce the scope of or eliminate one or more of its product initiatives.

We currently have no revenue generated from our principal operations in therapeutic and clinical product development through research and development efforts. There can be no assurance that we will be successful in maintaining our normal operating cash flow and obtaining additional funds and that the timing of our capital raising or future financing will result in cash flow sufficient to sustain our operations at least through one year after the issuance date.

Based on the factors above, there is substantial doubt about our ability to continue as a going concern. The consolidated financial statements were prepared assuming that we will continue to operate as a going concern. The consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty. Management's plans in regard to these matters are focused on managing our cash flow, the proper timing of our capital expenditures, and raising additional capital or financing in the future.

Critical Accounting Estimates

Our management's discussion and analysis of our financial condition and results of operations are based on our condensed consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles in the United States of America and the rules and regulations of the Securities and Exchange Commission. The preparation of these condensed consolidated financial statements requires us to make judgements and estimates that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statement, and the reported amounts of revenues, costs and expenses during the reporting periods.

Our estimates are based on our historical experience, known trends and events, and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities and amount of expense recognized that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. We evaluate our estimates and assumptions on an ongoing basis. The effects of material revisions in estimates, if any, will be reflected in the consolidated financial statements prospectively from the date of the change in estimates.

There have been no material changes to our critical accounting policies and estimates during the six months ended June 30, 2023 from those disclosed in “Part II – Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in our Annual Report on Form 10-K.

Recently Issued Accounting Pronouncements

A description of recently issued accounting pronouncements that may potentially impact our financial position and results of operations is disclosed in Note 1 to our condensed consolidated financial statements appearing elsewhere in this Quarterly Report on Form 10-Q.

Contractual Obligations and Commitments

There have been no material changes to our contractual obligations and commitments outside the ordinary course of business during the six months ended June 30, 2023 from those disclosed in “Part II - Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in our Annual Report on Form 10-K.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are a smaller reporting company, as defined by Rule 12b-2 of the Exchange Act, and are not required to provide the information required under this item.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15(e) and 15d-15(e) under the Exchange Act, the Company, with the participation of management, including our Chief Executive Officer and Principal Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in such rules) as of the end of the period covered by this report. Based on this evaluation, our Chief Executive Officer and Principal Financial Officer concluded that, at December 31, 2022, our disclosure controls and procedures were not effective as of such date due to a material weakness over financial reporting that was disclosed in our Annual Report on Form 10-K for the year ended December 31, 2022.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Principal Financial Officer, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure.

Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Remediation

As previously described in "Part II - Item 9A. Controls and Procedures" of our Annual Report on Form 10-K for the year ended December 31, 2022, we began implementing a remediation plan to address the material weakness mentioned above. The weakness will not be considered remediated until the applicable controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively. We expect that the remediation of this material weakness will be completed no later than December 31, 2023.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal controls during the six months ended June 30, 2023 that materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

There have been no material changes to the risk factors disclosed in “Part I – Item 1A. Risk Factors” included in our Annual Report on Form 10-K for the year ended December 31, 2022 filed with the SEC on March 30, 2023.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

During the quarter ended June 30, 2023, none of our directors or officers (as defined in Rule 16a-1(f) of the Securities Exchange Act of 1934) adopted, terminated or modified a Rule 10b5-1 trading arrangement or non-Rule 10b5-1 trading arrangement (as such terms are defined in Item 408 of Regulation S-K).

Item 6. Exhibits

Exhibit Index

Exhibit	Description
3.1	<u>Certificate of Incorporation (incorporated by reference to Exhibit 3.4 of the Registrant's Form 10-SB filed on April 4, 2006).</u>
3.2	<u>Certificate of Amendment of Certificate of Incorporation (incorporated by reference to Exhibit 3.1 of the Registrant's Preliminary Information Statement on Form 14C filed on December 29, 2006).</u>
3.3	<u>Certificate of Amendment of Certificate of Incorporation (incorporated by reference to Exhibit 3.1 of the Registrant's Form 8-K filed on June 4, 2012).</u>
3.4	<u>Certificate of Amendment of Certificate of Incorporation (incorporated by reference to Exhibit 3.1 of the Registrant's Form 8-K filed on May 14, 2014).</u>
3.5	<u>Certificate of Amendment of Certificate of Incorporation (incorporated by reference to Exhibit 3.1 of the Registrant's Form 8-K filed on July 28, 2015).</u>
3.6	<u>Certificate of Amendment of Certificate of Incorporation (incorporated by reference to Exhibit 3.1 of the Registrant's Form 8-K filed on May 19, 2016).</u>
3.7	<u>Amended and Restated Bylaws of the Registrant (incorporated by reference to Exhibit 3.1 of the Registrant's Form 8-K filed on May 6, 2011).</u>
4.1	<u>Form of Specimen Common Stock Certificate (incorporated by reference to Exhibit 4.1 of the Registrant's Form 10-KSB filed on April 9, 2007).</u>
4.2	<u>Certification of Designation of Series B Preferred Stock (incorporated by reference to Exhibit 4.1 of the Registrant's Form 8-K filed on May 12, 2008).</u>
4.3	<u>Certification of Designation of Series D Preferred Stock (incorporated by reference to Exhibit 10.2 of the Registrant's Form 8-K filed on January 5, 2009).</u>
4.4	<u>Certificate of Designation of Series G Preferred Stock (incorporated by reference to Exhibit 3.1 of the Registrant's Form 8-K filed on March 14, 2012).</u>
4.5	<u>Certificate of Preferences, Rights and Limitations of Series I-2 Convertible Preferred Stock (incorporated by reference to Exhibit 3.2 of the Registrant's Form 8-K filed on March 10, 2016).</u>
31.1*	<u>Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.</u>
31.2*	<u>Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.</u>
32.1*	<u>Section 1350 Certification of Chief Executive Officer.</u>
32.2*	<u>Section 1350 Certification of Chief Financial Officer.</u>
101.INS*	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104*	Cover Page Interactive Data File (embedded within the Inline XBRL document)

* Filed herewith.

SIGNATURES

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

INTERNATIONAL STEM CELL CORPORATION

Dated: August 11, 2023

By: /s/ ANDREY SEMECHKIN
Name: **Andrey Semechkin**
Title: **Chief Executive Officer**
(Principal Executive Officer)

By: /s/ RUSSELL KERN
Name: **Russell Kern**
Title: **Executive Vice President and Chief Scientific Officer (Principal**
Financial Officer)

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Andrey Semechkin, Chief Executive Officer of International Stem Cell Corporation, certify that:

1. I have reviewed this quarterly report on Form 10-Q of International Stem Cell Corporation;
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: August 11, 2023

By: /s/ ANDREY SEMECHKIN
Andrey Semechkin
Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

I, Russell Kern, EVP, and Chief Scientific Officer of International Stem Cell Corporation, certify that:

1. I have reviewed this quarterly report on Form 10-Q of International Stem Cell Corporation;
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: August 11, 2023

By: /s/ RUSSELL KERN
Russell Kern
Executive Vice President and Chief Scientific
Officer (Principal Financial 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 on Form 10-Q of International Stem Cell Corporation (the “Company”) for the quarter ended June 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Andrey Semechkin, Chief Executive Officer of the Company, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; 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: August 11, 2023

By: /s/ ANDREY SEMECHKIN
Andrey Semechkin
Chief Executive Officer
(Principal Executive 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 on Form 10-Q of International Stem Cell Corporation (the "Company") for the quarter ended June 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Russell Kern, EVP, and Chief Scientific Officer of the Company, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; 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: August 11, 2023

By: /s/ RUSSELL KERN
Russell Kern
Executive Vice President and Chief Scientific
Officer (Principal Financial Officer)
