

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

FORM 10-Q

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

For the quarterly period ended March 31, 2020

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)

5950 Priestly Drive
Carlsbad, CA
(Address of Principal Executive Offices)

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

92008
(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	ISCO	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 X 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 X 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	□	Accelerated filer	□
Non-accelerated filer	X	Smaller reporting company	X
Emerging growth company	□		

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 X

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

As of June 16, 2020, the Registrant had 7,539,089 shares of Common Stock outstanding.

Explanatory Note

As previously disclosed on International Stem Cell Corporations (the "Company") Form 8-K filed with the SEC on May 13, 2020, the filing of this Quarterly Report on Form 10-Q for the quarter ended March 31, 2020 (the "Quarterly Report") was delayed due to circumstances related to the novel coronavirus ("COVID-19") and its impact on the Company's operations. The disruptions in transportation, staffing, and technology systems to the Company resulted in limited support from the Company's staff due to the COVID-19 outbreak. In particular, COVID-19 has caused disruptions in the Company's day-to-day activities and impaired the Company's ability to perform necessary work on the Quarterly Report and to file the Quarterly Report by its May 15, 2020 due date. The Company relied on the SEC's Order Under Section 36 of the Securities Exchange Act of 1934 Modifying Exemptions From the Reporting and Proxy Delivery Requirements for Public Companies, dated March 4, 2020 and amended March 25, 2020 (Release Nos. 34-88318 and 34-88465), to delay the filing of this Quarterly Report.

As of the date of filing of this Quarterly Report on Form 10-Q (this "Report"), there are many uncertainties regarding the current COVID-19 pandemic, including the scope of health issues, the possible duration of the pandemic, and the extent of local and worldwide social, political, and economic disruption it may cause. To date, the COVID-19 pandemic has had far-reaching impacts on many aspects of the operations of International Stem Cell Corporation (the "Company," "we," "our" or "us"), including on consumer behavior, customer demand, timing of product availability, our employees' personal and business lives, and the market generally. The scope and nature of these impacts continue to evolve each day. The COVID-19 pandemic has resulted in, and may continue to result in, regional and local quarantines, labor stoppages and shortages, changes in consumer purchasing patterns, mandatory or elective shut-downs of retail locations, disruptions to supply chains, including the inability of our suppliers and service providers to deliver materials and services on a timely basis, or at all, severe market volatility, liquidity disruptions, and overall economic instability, which, in many cases, have had, and we expect will continue to have, adverse impacts on our business, financial condition and results of operations. This situation is changing rapidly, and additional impacts may arise that we are not aware of currently.

In light of the uncertain and rapidly evolving situation relating to the COVID-19 pandemic, we have taken certain precautionary measures intended to help minimize the risk to our Company, employees and customers, including the following:

- We are encouraging our staff to begin working from home. We expect that to be our operating model for an undetermined period of time, and to the extent permitted by federal, state and local instructions to reopen;
- We identified expense reductions that we intend to implement throughout the remainder of fiscal 2020, as necessary;
- Although our laboratory's in Frederick, Maryland and Oceanside, California currently continue to operate, we continue to evaluate its operations, and may elect, or be required, to shut down its operations temporarily at any time in the future;
- We have suspended all non-essential travel for our employees; and
- We are discouraging in-person work-related meetings.

Each of the remedial measures taken by the Company has had, and we expect will continue to have, adverse impacts on our current business, financial condition and results of operations, and may create additional risks for our Company. While we anticipate that the foregoing measures are temporary, we cannot predict the specific duration for which these precautionary measures will stay in effect, and we may elect or need to take additional measures as the information available to us continues to develop, including with respect to our employees, inventory receipts, and relationships with our lenders and licensors. We expect to continue to assess the evolving impact of the COVID-19 pandemic on our customers, consumers, employees, supply chain, and operations, and intend to make adjustments to our responses accordingly. However, the extent to which the COVID-19 pandemic and our precautionary measures in response thereto may impact our business, financial condition, and results of operations will depend on how the COVID-19 pandemic and its impact continues to develop in the United States and elsewhere in the world, which remains highly uncertain and cannot be predicted at this time.

In light of these uncertainties, for purposes of this report, except where otherwise indicated, the descriptions of our business, our strategies, our risk factors, and any other forward-looking statements, including regarding us, our business and the market generally, do not reflect the potential impact of the COVID-19 pandemic or our responses thereto. In addition, the disclosures contained in this report are made only as of the date hereof, and we undertake no obligation to publicly update or revise any forward-looking statement as a result of new information, future events or otherwise, except as otherwise required by law. For further information, see "Cautionary Note Regarding Forward-Looking Statements" and "Risk Factors" in our Annual Report on Form 10-K.

International Stem Cell Corporation and Subsidiaries

Form 10-Q

Table of Contents

	<u>Page Numbers</u>
<u>PART I—FINANCIAL INFORMATION</u>	
Item 1.	4
	4
	5
	6
	7
	8
Item 2.	22
Item 3.	27
Item 4.	27
<u>PART II—OTHER INFORMATION</u>	
Item 1.	29
Item 1A.	29
Item 2.	29
Item 3.	29
Item 4.	29
Item 5.	29
Item 6.	30
	32

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

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

	March 31, 2020	December 31, 2019
Assets		
Current assets:		
Cash	\$ 708	\$ 484
Accounts receivable, net	1,138	1,515
Inventory, net	1,100	1,246
Prepaid expenses and other current assets	434	207
Total current assets	3,380	3,452
Non-current inventory	375	358
Property and equipment, net	630	668
Intangible assets, net	1,351	1,335
Right-of-use assets	1,067	717
Deposits and other assets	73	90
Total assets	<u>\$ 6,876</u>	<u>\$ 6,620</u>
Liabilities, Redeemable Convertible Preferred Stock and Stockholders' Equity (Deficit)		
Current liabilities:		
Accounts payable	\$ 534	\$ 654
Accrued liabilities	718	642
Operating lease liabilities, current	308	367
Advances	250	250
Related party note payable	2,395	—
Total current liabilities	4,205	1,913
Related party note payable	—	2,370
Fair value of warrant liability	97	207
Operating lease liabilities, net of current portion	1,117	718
Total liabilities	<u>5,419</u>	<u>5,208</u>
Commitments and contingencies (Note 7)		
Series D redeemable convertible preferred stock, \$0.001 par value; 50 shares authorized; 43 shares issued and outstanding; liquidation preference of \$4,300 at March 31, 2020 and December 31, 2019	4,300	4,300
Stockholders' Equity (Deficit):		
Non-redeemable convertible preferred stock, \$0.001 par value; 10,006,310 shares authorized; 5,255,124 shares issued and outstanding; liquidation preference of \$10,554 and \$10,550 at March 31, 2020 and December 31, 2019, respectively	5	5
Common stock, \$0.001 par value; 120,000,000 shares authorized; 7,539,089 shares issued and outstanding at March 31, 2020 and December 31, 2019	8	8
Additional paid-in capital	103,908	103,490
Accumulated deficit	(106,764)	(106,391)
Total stockholders' deficit	<u>(2,843)</u>	<u>(2,888)</u>
Total liabilities, redeemable convertible preferred stock and stockholders' equity (deficit)	<u>\$ 6,876</u>	<u>\$ 6,620</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 March 31,	
	2020	2019
Product sales	\$ 2,360	\$ 2,218
Operating expenses:		
Cost of sales	857	841
Research and development	303	653
Selling and marketing	517	692
General and administrative	1,138	1,521
Total operating expenses	2,815	3,707
Loss from operations	(455)	(1,489)
Other income (expense):		
Change in fair value of warrant liability	110	597
Interest expense	(28)	(14)
Total other income, net	82	583
Net loss	\$ (373)	\$ (906)
Net loss per common share, basic and diluted	\$ (0.05)	\$ (0.12)
Weighted-average common shares used to compute net loss per share, basic and diluted	7,539	7,400

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' Equity (Deficit)
(In thousands)
(Unaudited)

Three Months Ended March 31, 2020									
	Series D Redeemable Convertible Preferred Stock		Non-redeemable Convertible Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount	Shares	Amount			
Balance at December 31, 2019	—	\$ 4,300	5,255	\$ 5	7,539	\$ 8	\$ 103,490	\$ (106,391)	\$ (2,888)
Stock-based compensation	—	—	—	—	—	—	418	—	418
Net loss	—	—	—	—	—	—	—	(373)	(373)
Balance at March 31, 2020	—	\$ 4,300	5,255	\$ 5	7,539	\$ 8	\$ 103,908	\$ (106,764)	\$ (2,843)

Three Months Ended March 31, 2019									
	Series D Redeemable Convertible Preferred Stock		Non-redeemable Convertible Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount	Shares	Amount			
Balance at December 31, 2018	—	\$ —	5,255	\$ 5	6,934	\$ 7	\$ 109,188	\$ (106,663)	\$ 2,537
Out of period correction	—	4,300	—	—	—	—	(8,837)	4,537	(4,300)
Conversion of debt	—	—	—	—	599	1	1,048	—	1,049
Stock-based compensation	—	—	—	—	—	—	506	—	506
Net loss	—	—	—	—	—	—	—	(906)	(906)
Balance at March 31, 2019	—	\$ 4,300	5,255	\$ 5	7,533	\$ 8	\$ 101,905	\$ (103,032)	\$ (1,114)

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)

	Three Months Ended March 31,	
	2020	2019
Cash flows from operating activities		
Net loss	\$ (373)	\$ (906)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	63	72
Operating lease expense	71	18
Stock-based compensation	418	506
Change in fair value of warrant liability	(110)	(597)
Allowance for inventory obsolescence	52	3
Interest expense on related party note payable	25	13
Changes in operating assets and liabilities:		
Accounts receivable	377	(306)
Inventory	77	51
Prepaid expenses and other current assets	(227)	63
Deposits and other assets	17	4
Accounts payable	(120)	348
Accrued liabilities	76	390
Operating lease liabilities	(81)	—
Net cash provided by (used in) operating activities	265	(341)
Cash flows from investing activities		
Purchases of property and equipment	(3)	(58)
Payments for patent licenses	(38)	(61)
Net cash used in investing activities	(41)	(119)
Net increase (decrease) in cash	224	(460)
Cash, beginning of period	484	1,075
Cash, end of period	<u>\$ 708</u>	<u>\$ 615</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	<u>\$ 2</u>	<u>\$ 2</u>
Supplemental disclosure of non-cash investing and financing activities:		
Right-of-use asset obtained in exchange for operating lease liability	<u>\$ 421</u>	<u>\$ —</u>
Conversion of bridge loan from a related party to common stock	<u>\$ —</u>	<u>\$ 1,049</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 publicly traded on the OTCQX under the symbol "ISCO". 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 diseases. 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 208 human cell culture products, including 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 cosmetic market, develops, manufactures and markets a category of anti-aging cosmetic 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 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 interim condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") and the rules and regulations of the Securities and Exchange Commission ("SEC") related to a quarterly report on Form 10-Q. Certain information and note disclosures 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 financial position and the results of its operations and cash flows for the periods presented. The unaudited condensed balance sheet at December 31, 2019 has been derived from the audited financial statements at that date but does not include all of the information and disclosures required by GAAP for annual financial statements. The operating results presented in these unaudited interim condensed consolidated financial statements are not necessarily indicative of the results that may be expected for any future periods. These unaudited interim 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, 2019 included in the Company's annual report on Form 10-K filed with the SEC on June 1, 2020.

Liquidity and Going Concern

The accompanying unaudited condensed consolidated financial statements have been prepared assuming the Company will continue as a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business. However, the Company's current working capital, anticipated operating expenses and net losses and the uncertainties surrounding its ability to raise additional capital as needed, as discussed below, raise substantial doubt about its ability to continue as a going concern for a period of one year following the date that these financial statements are issued. The accompanying 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 had an accumulated deficit of approximately \$106.8 million as of March 31, 2020 and has, on an annual basis, incurred net losses and negative operating cash flows since inception. The Company has had no revenue from its principal operations in therapeutic and clinical product development through research and development efforts. 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. 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 capital.

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 will need to obtain significant additional capital from sources including the exercise of outstanding warrants, equity and/or debt financings, 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 many factors, including:

- the accuracy of the assumptions underlying the estimates for capital needs in 2020 and beyond;
- 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
- the development of major public health concerns, including the novel coronavirus outbreak or other pandemics arising globally, and the current and future impact of it and COVID-19 on our business operations and funding requirements.

Additional financing through strategic collaborations, public or private equity financings or other financing sources may not be available on acceptable terms, or at all. Additional equity financing could result in significant dilution to stockholders. Additional debt financing may be expensive and require the Company 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 the Company to relinquish rights to some of its technologies, product candidates or products that the Company would otherwise seek to develop and commercialize on its own. 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.

Principles of Consolidation

The unaudited condensed consolidated financial statements include the accounts of International Stem Cell Corporation and its subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Reclassifications

For the three months ended March 31, 2020, the Company reclassified certain prior period amounts to conform to the current period presentation, as follows:

- The carrying value and shares of the Company's Series B, Series G, Series I-1 and Series I-2 non-redeemable convertible preferred stock were aggregated on the accompanying condensed consolidated balance sheets and statements of changes in redeemable convertible preferred stock and stockholders' equity (deficit). Refer to Note 5 – Convertible Preferred Stock and Stockholders' Equity (Deficit) for further information;
- Non-cash operating lease expense was reclassified from changes in operating assets and liabilities to adjustments to reconcile net loss to net cash used in operating activities on the accompanying condensed consolidated statements of cash flows; and
- Financed insurance premiums and payments on financed insurance premiums were reclassified from non-cash financing activities and cash flows from financing activities, respectively, to cash flows from operating activities on the accompanying condensed consolidated statements of cash flows;

These reclassifications had no effect on previously reported net loss, stockholders' equity (deficit) or cash flows for the prior period.

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 accompanying condensed consolidated financial statements. Significant estimates include patent life (remaining legal life versus remaining useful life), inventory carrying values, allowance for excess and obsolete inventories, allowance for sales returns and doubtful accounts, and transactions using the Black-Scholes option valuation model, for example, common stock options and common stock warrants, as well as the Monte-Carlo simulation method for certain common stock warrants. Actual results could differ from those estimates.

Segments

The Company's chief operating decision-maker reviews financial information presented on a consolidated basis, accompanied by disaggregated information by each reportable company's statement of operations. 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, and; LSC – anti-aging cosmetic market.

Inventory

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. Inventory is reviewed periodically for product expiration and obsolescence and is adjusted accordingly. 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 condensed consolidated balance sheets.

Accounts Receivable

Trade accounts receivable are recorded at the net invoice value and are not interest bearing. Accounts receivable primarily consist of trade accounts receivable from the sales of LCT's products, timing of cash receipts by the Company related to LSC credit card sales to customers, 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 reviews its exposure to accounts receivable and reserves specific amounts if collectability is no longer reasonably assured. As of March 31, 2020 and December 31, 2019, the Company had an allowance for doubtful accounts totaling \$12,000.

Advances

On June 18, 2008, the Company entered into an agreement with BioTime, Inc. ("BioTime"), whereby BioTime paid an advance of \$250,000 to LCT to produce, make, and distribute certain products. The \$250,000 advance will be paid down with the first \$250,000 of net revenues that otherwise would be allocated to LCT under the agreement. As of March 31, 2020, no revenues were realized and attributable to BioTime under this agreement.

Property and Equipment

Property and equipment are stated at cost. The provision for depreciation and amortization is computed using the straight-line method over the estimated useful lives of the assets, which are generally three to five years. The costs of major remodeling and leasehold improvements are capitalized and amortized over the shorter of the remaining term of the lease or the estimated life of the asset.

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 costs are expensed. Patents and other intangible assets are amortized on a straight-line basis over the shorter of the lives of the underlying patents, generally 15 years. All amortization expense and impairment charges related to intangible assets are included in general and administrative expense in the accompanying condensed consolidated statements of operations.

Long-Lived Asset Impairment

The Company reviews long-lived assets for impairment when events or changes in business conditions indicate that their carrying value may not be recovered. The Company considers assets to be impaired and writes them down to fair value if expected associated undiscounted cash flows derived from the asset (or group of assets) are less than the carrying amounts. Fair value is generally determined using the asset's expected future discounted cash flows or market value, if readily determinable.

Revenue Recognition

Revenue is recognized at an amount that reflects the consideration to which the Company expects to be entitled in exchange for transferring goods or services to a customer. This principle is applied using the following five-step process:

1. Identify the contract with the customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue when (or as) each performance obligation is satisfied

The Company recognizes revenue when it satisfies a performance obligation by transferring control of the promised goods or services to its customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services.

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

Biomedical market:

	Three Months Ended March 31, 2020			
	Domestic	International	Total Revenues	% of Total Revenues
Biomedical products				
Cells	\$ 262	\$ 117	\$ 379	19%
Media	1,466	125	1,591	81%
Total	<u>\$ 1,728</u>	<u>\$ 242</u>	<u>\$ 1,970</u>	<u>100%</u>

	Three Months Ended March 31, 2019			
	Domestic	International	Total Revenues	% of Total Revenues
Biomedical products				
Cells	\$ 172	\$ 100	\$ 272	15%
Media	1,401	117	1,518	85%
Total	<u>\$ 1,573</u>	<u>\$ 217</u>	<u>\$ 1,790</u>	<u>100%</u>

Anti-aging cosmetic market:

	Three Months Ended March 31, 2020		Three Months Ended March 31, 2019	
	Total Revenues	% of Total Revenues	Total Revenues	% of Total Revenues
Cosmetic sales channels				
Ecommerce	\$ 224	57%	\$ 215	50%
Professional	166	43%	213	50%
Total	<u>\$ 390</u>	<u>100%</u>	<u>\$ 428</u>	<u>100%</u>

The Company's revenue consists primarily of sales of products from its two revenue-generating operating segments, the biomedical products market and anti-aging cosmetic products market business segments. The biomedical market segment markets and sells primary human cell research products with two product categories, cells and media, which are sold both domestically within the United States and internationally. The anti-aging cosmetic market segment markets and sells a line of luxury skincare products sold through two sales channels: ecommerce and professional. The ecommerce channel sells direct to customers through online orders, while professional sales are to spas, salons and other skincare providers.

Contract terms for 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 in all cases. 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, while professional sales are invoiced. The professional sales and biomedical products' standard payment terms for its customers are generally 30 days after the Company satisfies the performance obligation(s). For anti-aging cosmetic products, the Company honors a 30-day return policy, but historical returns have been minimal and as such, no estimated allowance for sales returns was recorded as of March 31, 2020 and December 31, 2019.

The Company elects to account for shipping and handling costs 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 cosmetic 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 March 31, 2020 and December 31, 2019, accounts receivable totaled \$1.1 million and \$1.5 million, respectively. For the three months ended March 31, 2020 and 2019, the Company did not incur material write-offs with respect to its receivables.

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 cosmetic product markets once the customer payment has been received, which are accrued at the time of the sale. The Company generally expenses sales commissions when incurred because the amortization period would have been one year or less. These costs are recorded within sales and marketing expenses. In addition, the Company has elected to exclude sales taxes consideration from the determined transaction price.

Allowance for Sales Returns

The Company's cosmetic products have a 30-day product return guarantee; however, the Company determined that there is a low probability that returns will occur based on its historical rate of returns. Historically, returns have not been significant and are recognized as a reduction to current period revenue. As of March 31, 2020 and December 31, 2019, the Company recorded no allowance for sales returns.

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, general laboratory supplies and an allocation of overhead. Certain of the Company's licensed technology agreements may require the Company to pay royalties based on the future sale of the Company's products. Such royalties will be recorded as a component of cost of sales when incurred. Additionally, milestone payments or the amortization of license fees related to developed technologies used in the Company's products will be included as a component of cost of sales to the extent that such payments become due in the future.

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.

Stock-Based Compensation

The Company recognizes stock-based compensation expense associated with stock options and other stock-based awards in accordance with the authoritative guidance for 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, and is recognized as expense on a straight-line basis, net of forfeitures, 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. The fair value of restricted stock awards is based on the market value of the Company's common stock on the date of grant.

Fair Value Measurements

The accounting guidance defines fair value, establishes a consistent framework for measuring fair value and expands disclosure for each major asset and liability category measured at fair value on either a recurring or non-recurring basis. Fair value is defined as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, the accounting guidance establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1: Observable inputs such as quoted prices in active markets.

Level 2: Inputs, other than the quoted prices in active markets that are observable either directly or indirectly.

Level 3: Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

The Company has no financial assets or liabilities, other than the warrant liability described below, measured at fair value on a recurring basis. No transfers between levels have occurred during the periods presented.

The following table presents a summary of the Company's liabilities which are measured at fair value on a recurring basis as of March 31, 2020 and December 31, 2019 (in thousands):

	Fair Value Measurements at Reporting Date Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
As of March 31, 2020				
Warrant liability	\$ 97	\$ —	\$ —	\$ 97
As of December 31, 2019				
Warrant liability	\$ 207	\$ —	\$ —	\$ 207

The following table presents the rollforward activity of liabilities with inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity) (in thousands):

	Warrant Liability
Balance at December 31, 2019	\$ 207
Change in fair value of warrant liability	(110)
Balance at March 31, 2020	\$ 97

Warrant Liability

The Company is required to recognize warrant agreements as a liability since they did not meet the specific conditions for equity classification and therefore need to be recognized at its fair value. The fair value of the warrant liability is calculated using the Monte-Carlo simulation model, which requires the use of certain estimates. The fair value of these warrants is re-measured at each financial reporting period with any changes in fair value being recognized as a component of other income, net, in the accompanying condensed consolidated statements of operations.

The following assumptions were used as inputs to the model:

	Three Months Ended March 31,	
	2020	2019
Significant assumptions:		
Risk-free interest rate	0.05% - 0.17%	2.27% - 2.40%
Volatility	90.0%	77.2%
Term to expiration (in years)	0.04 - 0.96	1.04 - 1.96
Subsequent financing	0.0%	90.0%

Income Taxes

The Company accounts for income taxes in accordance with applicable authoritative guidance, which requires the Company to provide a net deferred tax asset/liability equal to the expected future tax benefit/expense of temporary reporting differences between book and tax accounting methods and any available operating loss or tax credit carryforwards.

Fair Value of Financial Instruments

The Company believes that the carrying value of its cash, accounts receivables, accounts payable, accrued liabilities and related party note payable as of March 31, 2020 and December 31, 2019 approximate their fair values because of the short-term nature of those instruments. The fair value of warrants was determined at each issuance date, reporting date and other applicable re-measurement dates for the periods ended using the Monte-Carlo simulation model.

Net Loss Per Share

Basic net loss per share attributable to common stockholders is calculated by dividing the net loss attributable to common stockholders by the weighted-average number of common shares outstanding during the period. Diluted net loss per share attributable to common stockholders is computed by dividing the net loss attributable to common stockholders by the weighted-average number of common stock equivalents outstanding for the period determined using the treasury-stock and if-converted methods. Potentially dilutive common stock equivalents are comprised of stock options, common stock warrants and convertible preferred stock. For the periods ended March 31, 2020 and 2019, there is no difference in the number of shares used to calculate basic and diluted shares outstanding as the inclusion of the potentially dilutive common stock equivalents would be anti-dilutive.

For the periods below, these common stock options, common stock warrants and convertible preferred stock were not included in the diluted loss per share calculation because the effect would be anti-dilutive.

	Three Months Ended March 31,	
	2020	2019
Options outstanding	4,837,580	5,479,187
Common stock warrants outstanding	3,951,052	3,951,052
Redeemable convertible preferred stock	2,457,143	2,457,143
Non-redeemable convertible preferred stock	3,675,135	3,675,133
Total	14,920,910	15,562,515

Comprehensive Loss

Comprehensive loss includes all changes in stockholders' equity except those resulting from investments by owners and distributions to owners. The Company did not have any items of comprehensive loss other than net loss from operations for the three months ended March 31, 2020 and 2019.

Risks and Uncertainties

COVID-19

On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the "COVID-19 outbreak") and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the Company's financial condition, liquidity, and future results of operations. Management is actively monitoring the situation on its financial condition, liquidity, operations, customers, suppliers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the response to curb its spread, the Company is not able to estimate the effects of the COVID-19 outbreak to its results of operations, financial condition, or liquidity for fiscal year 2020.

On March 27, 2020, President Trump signed into law the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act"). The CARES Act, among other things, includes provisions relating to refundable payroll tax credits, deferment of employer side social security payments, net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitations, increased limitations on qualified charitable contributions and technical corrections to tax depreciation methods for qualified improvement property. The Company continues to examine the impact that the CARES Act may have on its business. Currently, the Company is unable to determine the impact that the CARES Act will have on its financial condition, results of operations, or liquidity. The CARES Act also appropriated funds for the U.S. Small Business Administration Paycheck Protection Program ("PPP") loans that are forgivable in certain situations to promote continued employment, as well as Economic Injury Disaster Loans to provide liquidity to small businesses harmed by COVID-19.

Customer Concentration

During the three months ended March 31, 2020 and 2019, for the biomedical market segment, one customer accounted for approximately 49% and 42%, respectively, of consolidated revenues. No other single customer accounted for more than 10% of revenues for the periods ended.

Vendor Concentration

During the three months ended March 31, 2020, two vendors accounted for approximately 14% and 11% of consolidated purchases, while during the same period in 2019 no single vendor accounted for more than 10% of consolidated purchases.

Recently Issued 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 new standard will be effective for the Company on January 1, 2023 or at such 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.

In December 2019, the FASB issued ASU No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes* ("ASU 2019-12"). ASU 2019-12 simplifies the accounting for income taxes by removing certain exceptions to the general principles in Topic 740. ASU 2019-12 also improves the consistent application, and the simplification, of other areas of Topic 740 by clarifying and amending existing guidance. ASU 2019-12 is effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years, with early adoption permitted. 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 August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820), Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement* ("ASU 2018-13"). ASU 2018-13 removes the valuation processes for Level 3 fair value measurements and adds the disclosure for the range and weighted-average of significant unobservable inputs used to develop Level 3 fair value measurements. ASU 2018-13 is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years, with early adoption permitted. The Company adopted ASU 2018-13 on January 1, 2020. The adoption of this standard did not have a material impact on the Company's consolidated financial statements or related disclosures.

2. Inventory

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

	March 31, 2020	December 31, 2019
Raw materials	\$ 630	\$ 688
Work in process	537	492
Finished goods	1,155	1,219
	2,322	2,399
Less: allowance for inventory excess and obsolescence	(847)	(795)
Total current and non-current inventory, net	\$ 1,475	\$ 1,604
Inventory, net	\$ 1,100	\$ 1,246
Non-current inventory	375	358
Total current and non-current inventory, net	\$ 1,475	\$ 1,604

3. Property and Equipment

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

	March 31, 2020	December 31, 2019
Machinery and equipment	\$ 1,645	\$ 1,642
Computer equipment and software	236	236
Office equipment	230	230
Leasehold improvements	1,290	1,290
Construction in progress	12	12
	3,413	3,410
Less: accumulated depreciation and amortization	(2,783)	(2,742)
Property and equipment, net	\$ 630	\$ 668

Depreciation expense for the three months ended March 31, 2020 and 2019 was \$41,000 and \$37,000 respectively.

4. Intangible Assets

Intangible Assets consists of the following (in thousands):

	March 31, 2020	December 31, 2019
Patents	\$ 2,306	\$ 2,268
Less: accumulated amortization	(1,030)	(1,008)
	1,276	1,260
Indefinite life logos and trademarks	75	75
Intangible assets, net	\$ 1,351	\$ 1,335

Amortization expense for the three months ended March 31, 2020 and 2019 was \$22,000 and \$35,000, respectively.

5. Convertible Preferred Stock and Stockholders' Equity (Deficit)

Non-Redeemable Convertible Preferred Stock

The Company's Series B, Series G, Series I-1 and Series I-2 non-redeemable convertible preferred stock has been classified as equity on the accompanying condensed consolidated balance sheets in accordance with authoritative guidance for the classification and measurement of non-redeemable securities whose redemption is based upon certain change in control events within the Company's control, including liquidation, sale, or transfer of control of the Company.

The authorized, issued and outstanding shares of non-redeemable convertible preferred stock as of March 31, 2020 consist of the following:

	Shares Authorized	Shares Issued and Outstanding	Liquidation Preference	Carrying Value
			(in thousands)	
Series B	5,000,000	250,000	\$ 430	\$ —
Series G	5,000,000	5,000,000	5,000	5
Series I-1	2,000	814	814	—
Series I-2	4,310	4,310	4,310	—
Total	10,006,310	5,255,124	\$ 10,554	\$ 5

The authorized, issued and outstanding shares of non-redeemable convertible preferred stock as of December 31, 2019 consist of the following:

	Shares Authorized	Shares Issued and Outstanding	Liquidation Preference	Carrying Value
			(in thousands)	
Series B	5,000,000	250,000	\$ 426	\$ —
Series G	5,000,000	5,000,000	5,000	5
Series I-1	2,000	814	814	—
Series I-2	4,310	4,310	4,310	—
Total	10,006,310	5,255,124	\$ 10,550	\$ 5

Common Stock

As of March 31, 2020, the Company was authorized to issue 120,000,000 shares of common stock, \$0.001 par value per share, and 20,000,000 shares of preferred stock, \$0.001 par value per share. Of the 20,000,000 total authorized shares of preferred stock, the Company had authorized 50 shares of Series D redeemable convertible preferred stock and 10,006,310 shares of Series B, Series G, Series I-1 and Series I-2 non-redeemable convertible preferred stock were authorized.

On January 21, 2019, the Company issued 599,222 shares of common stock upon conversion of a portion of the Company's outstanding indebtedness with a principal amount of \$1.0 million and accrued and unpaid interest on the principal of \$49,000. In accordance with the Series G Certificate of Designation, the issuance of Common Shares at the conversion price of \$1.75 per share triggered further adjustment in the conversion price and conversion ratio of the Series G Preferred Stock from \$9.92 per share and 0.1008 shares to \$9.70 per share and 0.1031 shares, respectively. The deemed dividend as a result of the down-round adjustment was immaterial.

Common Stock Warrants

In October 2014 and March 2016, the Company issued warrants exercisable for 62,047 and 11,159,995 shares of common stock, respectively, at an exercise price of \$1.75 per share, to certain placement agents and existing investors in conjunction with financing arrangements. The common stock warrants issued in October 2014 and March 2016 expire on April 14, 2020 and March 15, 2021, respectively. As of March 31, 2020 and December 31, 2019, 2,483 and 3,948,569 of common stock warrants issued in October 2014 and March 2016, respectively, were outstanding.

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.

In April 2010, 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. Options may be granted with different vesting terms and expire no later than 10 years from the date of grant.

Stock Options

Transactions involving stock options issued to employees, directors and consultants under the 2006 Plan and the 2010 Plan are summarized below. Options issued have a maximum life of 10 years. The following tables summarize the changes in options outstanding and the related exercise prices for the Company's common stock options issued:

	Number of Outstanding Options	Weighted- Average Exercise	Weighted- Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2019	4,936,673	\$ 3.38		
Granted	—	\$ —		
Exercised	—	\$ —		
Forfeited, canceled or expired	(99,093)	\$ 1.65		
Outstanding at March 31, 2020	4,837,580	\$ 3.42	7.84	\$ —
Vested and expected to vest at March 31, 2020	4,713,260	\$ 3.47	7.81	\$ —
Exercisable at March 31, 2020	3,316,350	\$ 4.30	7.49	\$ —

Restricted Stock Awards

Restricted stock awards are grants that entitle the holder to acquire shares of common stock at zero or a fixed price, which is typically nominal. The Company accounts for the restricted stock awards as issued and outstanding common stock, even though the shares covered by a restricted stock award cannot be sold, pledged, or otherwise disposed of until the award vests and any unvested shares may be reacquired by the Company for the original purchase price following the awardee's termination of service.

No restricted stock was awarded for the three months ended March 31, 2020. For the year ended December 31, 2019, 6,006 shares of restricted stock were awarded and fully vested at a weighted-average grant date fair value of \$0.62.

The fair value of the restricted stock awards is based on the market value of the common stock on the date of grant. For the three months ended March 31, 2020 and 2019, no restricted stock awards vested. As of March 31, 2020, there was no unrecognized compensation costs related to unvested awards.

Stock-Based Compensation

In accordance with applicable authoritative guidance, the Company is required to establish assumptions and estimates of the fair value of stock options granted, as well as use a valuation model to calculate the fair value of stock-based awards. The Company uses the Black-Scholes option-pricing model to determine the fair-value of stock-based awards. All options are amortized over the requisite service periods.

The fair value of stock options granted is estimated at the date of grant using the Black-Scholes option valuation model. For the three months ended March 31, 2020, no stock options were granted. The weighted-average assumptions used in the Black-Scholes option valuation model to determine the fair value of stock options grants for the three months ended March 31, 2019 were as follows:

	Three Months Ended March 31, 2019
Risk-free interest rate	2.55%
Expected stock price volatility	84.80%
Expected dividend yield	0%
Expected life of options (in years)	5.77

Total stock-based compensation expense for the three months ended March 31, 2020 and 2019 was comprised of the following (in thousands):

	Three Months Ended March 31,	
	2020	2019
Cost of sales	\$ 24	\$ 24
Research and development	49	156
Selling and marketing	22	23
General and administrative	323	303
Total	\$ 418	\$ 506

Unrecognized compensation expense related to stock options as of March 31, 2020 was \$1.4 million, which is expected to be recognized over a weighted-average period of approximately 1.39 years.

Common Stock Reserved for Future Issuance

At March 31, 2020, the Company had shares of common stock reserved for future issuance as follows:

Options outstanding	4,837,580
Common stock warrants outstanding	3,951,052
Common stock available for issuance under the 2010 Plan	4,699,695
Redeemable convertible preferred stock	2,457,143
Non-redeemable convertible preferred stock	3,675,135
Total	19,620,605

6. Related Party Transactions

During the first quarter of 2011, the Company executed an operating lease for its corporate offices with S Real Estate Holdings LLC. S Real Estate Holdings LLC is owned by Dr. Russell Kern, the Company's Executive Vice President and Chief Scientific Officer and a director and was previously owned by Dr. Andrey Semechkin, the Company's Chief Executive Officer and Co-Chairman of the Board of Directors. The lease agreement was negotiated at arm's length and was reviewed by the Company's outside legal counsel. The terms of the lease were reviewed by a committee of independent directors, and the Company believes that, in total, those terms are at least as favorable to the Company as could be obtained for comparable facilities from an unaffiliated party. In March 2017 the Company signed an amendment to the lease agreement to extend the term of the lease until 2020 and include annual adjustments to the monthly lease payments. In March 2020, the Company entered into an amendment to the lease agreement. The amendment extended the term of the lease for three years (until February 28, 2023) and provided for a 2% increase in monthly rent. For the three months ended March 31, 2020 and 2019, the Company recorded \$41,000 and \$40,000, respectively, in rent expense that was related to the facility lease arrangement with related parties.

Between March 6, 2018 and August 8, 2018, to obtain funding for working capital purposes, the Company borrowed a total of \$2.0 million from Dr. Semechkin and issued an unsecured non-convertible promissory note in the principal amount of \$2.0 million (the "Note") to Dr. Semechkin (the "Noteholder"). The outstanding principal amount under the Note accrued interest at a rate of four percent (4%) per annum. The Note was due and payable November 1, 2018 and on November 12, 2018, to satisfy the indebtedness incurred on the Note, an amendment to the Note was entered into extending the due date to January 15, 2019.

On January 21, 2019, the Company entered into a Note Conversion Agreement with Dr. Semechkin (the "Conversion Agreement"). The Conversion Agreement provides for the conversion of a total of \$1.05 million (representing \$1.0 million of principal and \$49,000 of accrued interest, representing all accrued interest on the amount owed to Dr. Semechkin through January 21, 2019) under the promissory note issued to Dr. Semechkin on August 8, 2018 into a total of 599,222 shares of the Company's common stock, representing a conversion price of \$1.75 per share, which was greater than the fair value of common stock on the date of conversion at a price of \$1.60 per share. Dr. Semechkin took less than fair value to avoid further dilution by triggering down-round adjustments to outstanding common stock warrants and convertible preferred stock. Due to Dr. Semechkin's role in the Company and controlling interest in the Company, no gain was recorded by the Company upon conversion and the excess was recorded within additional paid-in capital due to the absence of retained earnings. Under the Conversion Agreement, the remaining \$1.0 million owed to Dr. Semechkin under the Note has been reflected in a new unsecured, non-convertible promissory note in the principal amount of \$1.0 million (the "New Note"). The outstanding principal amount under the New Note accrued interest at a rate of 4.5% per annum. The New Note was due and payable on January 15, 2020, but may be pre-paid by the Company without penalty at any time.

On April 17, 2019, to obtain additional funding for working capital purposes, the Company issued an unsecured, non-convertible promissory note (the "New Promissory Note") in the amount of \$1.8 million to Dr. Semechkin. Dr. Semechkin surrendered an existing promissory note from the Company for \$1.0 million and provided an additional \$800,000 of funds to the Company. The outstanding principal amount accrued interest at a rate of 4.5% per annum and was due and payable on January 15, 2020, but may be pre-paid by the Company without penalty at any time.

On December 17, 2019, to obtain additional funding for working capital purposes the Company issued an unsecured, non-convertible promissory note in the principal amount of \$2.3 million (the "New Note") to Dr. Andrey Semechkin. On December 17, 2019 the Noteholder provided an additional \$500,000 of funds to the Company and surrendered the New Promissory Note, in return for the New Note. The outstanding principal amount under the New Note accrues interest at a rate of 4.5% per annum. The New Note, including outstanding amounts of principal and accrued interest, is due and payable January 15, 2021 but may be pre-paid by the Company without penalty at any time.

7. Commitments and Contingencies

Leases

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

- Carlsbad, California – corporate offices with a term date of February 2023 and leased from a related party (see also Note 6);
- Oceanside, California – primary research facility and laboratory space with a term date of December 2021 with the Company's option to terminate the lease on January 1, 2020 upon a six-month advanced notice;
- Frederick, Maryland – mixed laboratory and administrative space with a term date of November 2025.

The Company's operating leases for real estate are subject to additional variable charges for common area maintenance and other variable costs, and do not include an option to extend the lease term. 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 of March 31, 2020, total right-of-use assets and operating lease liabilities were approximately \$1.1 million and \$1.4 million, respectively. All operating lease expense is recognized on a straight-line basis over the lease term.

Licensed Patents

The Company has a minimum annual license fee of \$75,000 payable in two installments per year to Astellas Pharma pursuant to the amended UMass IP license agreement and is noncancelable.

8. 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, and; LSC – anti-aging cosmetic market.

The Company does not measure the performance of its segments on any asset-based metrics. Therefore, segment information is presented only for operating income (loss). Revenues, expenses and operating income (loss) for the three months ended March 31, 2020 and 2019 by market segment were as follows (in thousands):

	Three Months Ended March 31,	
	2020	2019
Revenues:		
Biomedical market	\$ 1,970	\$ 1,790
Anti-aging cosmetic market	390	428
Total revenues	2,360	2,218
Operating expenses:		
Therapeutic market	832	1,658
Biomedical market	1,441	1,446
Anti-aging cosmetic market	542	603
Total operating expenses	2,815	3,707
Operating income (loss)		
Therapeutic market	(832)	(1,658)
Biomedical market	529	344
Anti-aging cosmetic market	(152)	(175)
Total operating loss	\$ (455)	\$ (1,489)

9. Subsequent Events

In May 2020, the Company applied for and received \$654,000 from the PPP (the "PPP Loan") as government aid for payroll, rent and utilities. The application for these funds required the Company to, in good faith, certify that the current economic uncertainty made the loan request necessary to support the ongoing operations of the Company. This certification further required the Company to take into account its current business activity and its ability to access other sources of liquidity sufficient to support ongoing operations in a manner that is not significantly detrimental to the business. The certification made by the Company did not contain any objective criteria and is subject to interpretation. Based in part on the Company's assessment of other sources of liquidity, the uncertainty associated with future revenues created by the COVID-19 pandemic and related governmental responses, and the going concern uncertainty reflect in the Company's consolidated financial statements, the Company believed in good faith that it met the eligibility requirements for the PPP Loan. If, despite the good-faith belief that given the Company's circumstances all eligibility requirements for the PPP Loan were satisfied, it is later determined that the Company had violated any applicable laws or regulations or it is otherwise determined the Company was ineligible to receive the PPP Loan, it may be required to repay the PPP Loan in its entirety and/or be subject to additional penalties and potential liabilities.

On June 5, 2020, the Paycheck Protection Program Flexibility Act (the "PPP Flexibility Act") was signed into law, extending the PPP Loan forgiveness period from 8 weeks to 24 weeks after loan origination, reducing the required amount of payroll expenditures from 75% to 60%, removing the prior ban on borrowers taking advantage of payroll tax deferral after loan forgiveness and allowing for the amendment of the maturity date on existing loans from two years to five years. The Company is evaluating the impact of these changes on its PPP Loan.

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, 2019. 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 Item 1A of Part II of this report. 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 generated aggregate product sales revenues from our two commercial businesses of \$2.4 million and \$2.2 million for the three months ended March 31, 2020 and 2019, respectively. We have generated no revenues 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 fifteen stem cell lines. We have facilities and manufacturing protocols that comply with the requirements of Good Manufacturing Practice ("GMP") standards as promulgated in the U.S. Code of Federal Regulations and enforced by the U.S. Food and Drug Administration ("FDA").

Market Opportunity and Growth Strategy

Therapeutic Market – Clinical Applications of hpSCs for Disease Treatments. With respect to therapeutic research and product candidates, we focus on applications where cell and tissue therapy is already proven but where there is an insufficient supply of safe and functional cells or tissue. We believe that the most promising potential clinical applications of our technology are: 1) Parkinson's disease ("PD"); 2) traumatic brain injury ("TBI"); and 3) metabolic/liver diseases. Using our proprietary technologies and know-how, we are creating neural stem cells from hpSCs as a potential treatment of PD and TBI, and stroke, and liver cells from hpSCs that may be able to treat a variety of hepatic and metabolic liver diseases.

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 neural stem cells 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 that demonstrated the safety, efficacy and mechanism of action of the ISC-hpNSC®. In 2017, we began our Phase I trial of ISC-hpNSC®, human parthenogenetic stem cell-derived neural stem cells for the treatment of Parkinson's disease. This trial involves three groups, each with four patients, with each group receiving an increasing amount of ISC-hpNSC® via intracerebral transplantation. Patients are evaluated for 12 months (active phase of the study) with an additional 5-year observational follow-up period to assess safety. We reported 12-month results from the first cohort and 6-month interim results from 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 anticipate providing full results of the phase I clinical study by the end of 2020.

In November 2014, in an important ruling the FDA cleared ISCO's human parthenogenetic stem cell line for investigational clinical use. This was a necessary step in the process of advancing stem cell therapies based on ISCO's core technology into clinical development and on to commercialization. Although the Phase I study is conducted in Australia, and therefore not subject to FDA oversight, we anticipate that a significant portion of future studies will be carried out in the United States where this approval is necessary.

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 neural stem cells can significantly reduce neurological dysfunction after a stroke in animal models.

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.

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 the reagents (called "media") needed to grow, maintain and differentiate the cells. LCT's scientists have used a technology called basal medium optimization to systematically produce optimized products designed to culture specific human cell types and to elicit specific cellular behaviors. These techniques also 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.

Anti-Aging Cosmetic Market – Skin Care Products. Our wholly-owned subsidiary Lifeline Skin Care, Inc. ("LSC") develops, manufactures and offers for sale anti-aging skin care products based on two core technologies: encapsulated extract derived from hpSC and specially selected targeted small molecules. Products containing stem cell technology include: Defensive Day Serum, Recovery Night Serum, Firming Eye Complex, Neck Firming Complex, Aqueous Gel Serum, Intense Moisture Serum, and the ProPLUS Advanced Aqueous Treatment. Products based on the proprietary targeted small molecule technology include: retail and professional formulas of the Collagen Booster (Molecular Renewal Serum), retail and professional formulas of the Elastin Booster, and Brightening Toner. LSC's products are regulated as cosmetics. LSC's products are sold domestically through ecommerce partners and through the professional channel (including dermatologists, plastic surgeons, medical, day and resort spas).

Results of Operations

Comparison of the Three Months Ended March 31, 2020 and 2019

The following table summarizes our results of operations for the three months ended March 31, 2020 and 2019, together with the dollar and percent change in those items (in thousands):

	Three Months Ended March 31,			
	2020	2019	\$ Change	% Change
Product sales	\$ 2,360	\$ 2,218	\$ 142	6%
Cost of sales	857	841	16	2%
<i>As a % of revenues</i>	<i>36%</i>	<i>38%</i>		
Research and development	303	653	(350)	-54%
Selling and marketing	517	692	(175)	-25%
General and administrative	1,138	1,521	(383)	-25%
Other income, net	82	583	(501)	-86%
Net loss	\$ (373)	\$ (906)	\$ 533	-59%
<i>As a % of revenues</i>	<i>-16%</i>	<i>-41%</i>		

Product Sales

Product sales revenue for the three months ended March 31, 2020, was \$2.4 million, compared to \$2.2 million for the three months ended March 31, 2019. The increase of \$142,000, or 6%, was primarily attributable to an increase in biomedical cell and media product sales in 2020 compared to 2019.

While the COVID-19 pandemic did not materially affect our product sales revenue for the three months ended March 31, 2020, the pandemic could have a negative impact on our product sales revenue in future periods.

Cost of Sales

Cost of sales for the three months ended March 31, 2020, was \$857,000, compared to \$841,000 for the three months ended March 31, 2019. The increase of \$16,000, or 2%, was consistent with the increase in product sales and partially offset by a reduction in manufacturing costs in 2020 compared to 2019.

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 an allocation of overhead. We aim to continue refining our manufacturing processes and supply chain management to improve the cost of sales as a percentage of revenue for both LCT and LSC.

Research and Development Expenses

Research and development expenses for the three months ended March 31, 2020, was \$303,000, compared to \$653,000 for the three months ended March 31, 2019. The decrease of \$350,000, or 54%, was primarily attributable to a \$240,000 decrease in personnel-related costs and stock-based compensation primarily as a result of headcount reductions, and a \$101,000 decrease in consulting fees. The decrease in consulting fees is largely a result of the Company completing Phase 1 of its Parkinson's disease clinical trials during the first half of 2019. We expect clinical trial costs during 2020 to be less than comparable periods of the prior year as we await results from our Parkinson's disease study.

Our research and development efforts are primarily focused on the development of treatments for Parkinson's disease, traumatic brain injury, liver diseases, stroke, and the creation of new GMP grade human parthenogenetic stem cell lines. 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.

Selling and Marketing Expense

Selling and marketing expenses for the three months ended March 31, 2020, was \$517,000, compared to \$692,000 for the three months ended March 31, 2019. The decrease of \$175,000, or 25%, was attributable to a \$123,000 decrease in personnel-related costs and stock-based compensation primarily as a result of headcount reductions, a \$27,000 decrease in advertising and consulting services, and a \$25,000 decrease in trade show expenses.

General and Administrative Expenses

General and administrative expenses for the three months ended March 31, 2020, was \$1.1 million, compared to \$1.5 million for the three months ended March 31, 2019. The decrease of \$0.4 million, or 25%, was primarily attributable to a decrease in professional service fees.

Other Income, Net

Other income, net, for the three months ended March 31, 2020, was \$82,000, compared to \$583,000 for the three months ended March 31, 2019. The decrease of \$501,000, or 86%, in other income, net, was primarily attributable to the change in the fair value of the warrant liability.

Liquidity and Capital Resources

As of March 31, 2020, we had an accumulated deficit of approximately \$106.8 million and have, on an annual basis, incurred net losses and negative operating cash flows since inception. 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 incurred net losses of \$373,000 and \$906,000 for three months ended March 31, 2020 and 2019, respectively. As of March 31, 2020, we had cash of \$708,000, compared to \$484,000 as of March 31, 2019.

In May 2020, we applied for and received a \$654,000 loan (the "PPP Loan") from the U.S. Small Business Administration Paycheck Protection Program ("PPP") which provided additional liquidity to support our current operations. We intend to use the full amount of proceeds from the PPP Loan for qualifying expenses and apply for forgiveness. However, there is no assurance that we will be able to obtain forgiveness of the PPP Loan in whole or in part. The terms of the PPP Loan, including eligibility and forgiveness, may be subject to further requirements in regulations and guidance adopted by the U.S. Small Business Administration. Our primary use of cash is to continue to fund our research and development programs and operations.

Cash Flows

Comparison of the Three Months Ended March 31, 2020 and 2019

The following table provides information regarding our cash flows for the three months ended March 31, 2020 and 2019 (in thousands):

	Three Months Ended March 31,	
	2020	2019
Net cash provided by (used in) operating activities	\$ 265	\$ (341)
Net cash used in investing activities	(41)	(119)
Net increase (decrease) in cash	\$ 224	\$ (460)

Operating Cash Flows

For the three months ended March 31, 2020, net cash provided by operating activities was \$265,000, resulting primarily from non-cash adjustments of \$519,000 for stock-based compensation, change in fair value of warrant liability, depreciation and amortization and other non-cash charges, and net changes in operating assets and liabilities of \$119,000, offset by net losses of \$373,000. The net changes in operating assets and liabilities was primarily attributable to a \$377,000 decrease in accounts receivable, offset by a \$227,000 decrease in prepaid expenses and other current assets, a \$120,000 decrease in accounts payable and \$81,000 decrease in operating lease liabilities.

For the three months ended March 31, 2019, net cash used in operating activities was \$341,000, resulting primarily from net losses of \$906,000, non-cash adjustments of \$597,000 for change in fair value of warrant liability, offset by non-cash stock-based compensation of \$506,000 and net changes in operating assets and liabilities of \$550,000. The net changes in operating assets and liabilities was primarily attributable to a \$390,000 increase in accrued liabilities and \$348,000 increase in accounts payable, offset by a \$306,000 increase in accounts receivable.

Investing Cash Flows

Net cash used in investing activities for the three months ended March 31, 2020 was \$41,000, compared to \$119,000 for the three months ended March 31, 2019. The decrease of \$78,000 was attributable to a decrease in purchases of property and equipment of \$55,000 and a decrease in payments for patent licenses of \$23,000.

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 sources including exercise of outstanding warrants, 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 in 2020 and beyond;
- 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 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 we pursue; and
- the development of major public health concerns, including the novel coronavirus outbreak or other pandemics arising globally, and the current and future impact of it and COVID-19 on our business operations and funding requirements.

Additional financing through strategic collaborations, public or private equity financings or other financing sources may not be available on acceptable terms, or at all. Additional equity financing could result in significant dilution to our stockholders. Additional debt financing may be expensive and require us to pledge all or a substantial portion of our assets. Further, if additional funds are obtained through arrangements with collaborative partners, these arrangements may require us to relinquish rights to some of our technologies, product candidates or products that we would otherwise seek to develop and commercialize on our own. If sufficient capital is not available, we may be required to delay, reduce the scope of or eliminate one or more of our 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 condensed consolidated financial statements were prepared assuming that we will continue to operate as a going concern. The 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 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 Policies and 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 three months ended March 31, 2020 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 three months ended March 31, 2020 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.

Off-Balance Sheet Arrangements

As of March 31, 2020, we did not have any relationship with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance variable interests, or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements. In addition, we did not engage in trading activities involving non-exchange traded contracts. As a result, we are not exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships. We do not have relationships and transactions with persons and entities that derive benefits from their non-independent relationship with us or our related parties except as disclosed herein.

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, management concluded that, at March 31, 2020, our disclosure controls and procedures were not effective due to a material weakness in internal control over financial reporting including the areas of financial reporting and technical accounting, disclosures of equity, complex, non-routine, and significant transactions, and adoption of new accounting standards, collectively resulting from lack of continuity and sufficient accounting and finance resources.

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 may not be detected.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting during the quarter ended March 31, 2020 that our certifying officers concluded materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

Management Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control system is designed 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 in the United States of America ("GAAP") and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the Company are being made only in accordance with authorization of management and directors of the Company's; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on its financial statements.

Because of its inherent limitations, a system of internal control over financial reporting can provide only reasonable assurance and may not prevent or detect misstatements. Further, because of changes in conditions, effectiveness of internal controls over financial reporting may vary over time. Our system contains self-monitoring mechanisms, and actions are taken to correct deficiencies as they are identified.

Our management conducted an evaluation of the effectiveness of the system of internal control over financial reporting based on the framework in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "2013 COSO Framework"). Based on the above evaluation, the Company's Chief Executive Officer and Principal Financial Officer have concluded that as of March 31, 2020, the Company's internal control over financial reporting was not effective due to a material weakness in internal control over financial reporting including the areas of financial reporting and technical accounting, disclosures of equity, identification of the status of intangible assets as issued, pending, expired or abandoned, complex, non-routine, and significant transactions, and adoption of new accounting standards, collectively resulting from lack of continuity and sufficient accounting and finance resources.

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, 2019 filed with the SEC on June 1, 2020.

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

Effective March 1, 2020, we entered into a Restated Lease Agreement (the "Lease Agreement") with S Real Estate Holding LLC for our current corporate offices located at 5950 Priestly Drive, Carlsbad, California. S Real Estate Holding LLC is an affiliate of Dr. Andrey Semechkin, our Chief Executive Officer, and Dr. Russell Kern, our Executive Vice President and Chief Scientific Officer. The Lease Agreement expires on March 1, 2023. Monthly rent is \$13,996.64 for the first year, increasing each year by approximately 2% on the anniversary date of the agreement. The terms of the lease were reviewed by our independent directors, and the Company believes that, in total, those terms are at least as favorable to the Company as could be obtained for comparable facilities from an unaffiliated party.

The foregoing description of the Lease Agreement is not a complete description of all its terms. For a complete description of all the terms, we refer you to the full text of the Lease Agreement, a copy of which is filed herewith as Exhibit 10.1 to this Quarterly Report on Form 10-Q.

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-1 Convertible Preferred Stock (incorporated by reference to Exhibit 3.1 of the Registrant's Form 8-K filed on March 10, 2016).</u>
4.6	<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>
4.7	<u>Form of Series A Common Stock Purchase Warrant (incorporated by reference to Exhibit 4.1 of the Registrant's Form 8-K filed on March 10, 2016).</u>
4.8	<u>Form of Placement Agent Common Stock Purchase Warrant (incorporated by reference to Exhibit 4.4 of the Registrant's Form 8-K filed on March 10, 2016).</u>
10.1	<u>Restated Lease Agreement, dated March 1, 2020, by and between the Company and S Real Estate Holdings, LLC.*</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	XBRL Instance Document*
101.SCH	XBRL Taxonomy Extension Schema Document*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document*

Exhibit	Description
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase 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: June 19, 2020

By: /s/ ANDREY SEMECHKIN

Name: Andrey Semechkin

Title: Chief Executive Officer
(Principal Executive Officer)

By: /s/ SOPHIA GARNETTE

Name: Sophia Garnette

Title: Vice President, Legal Affairs and Operations
(Principal Financial Officer)



STANDARD MULTI-TENANT OFFICE LEASE

This Restated Lease Agreement (the "Lease") is dated as of March 1, 2020 (the "Effective Date") is made by and between S Real Estate Holdings LLC, Delaware limited liability company ("Landlord") and International Stem Cell Corporation, a Delaware corporation ("Tenant") (collectively, the "Parties" or individually, a "Party").

1. Basic Lease Provisions.

1.1 Premises. Those certain premises consisting of approximately 9,028 rentable square feet in the building located at 5950 Priestly Drive Carlsbad, CA 92008 (the "**Premises**"), as shown in Exhibit A hereto, together with the right to use all Common Areas.

1.2 Commencement Date. The Commencement Date shall be March 1, 2020.

1.3 Term. Three (3) years.

1.4 Use. General office, research and development, manufacturing and any other related uses permitted by applicable Laws (defined below).

1.5 Monthly Base Rent. The monthly base rent payable by Tenant for the Premises in accordance with the following schedule.

1.6 Late Fee. If Base Rent shall not be paid within five (5) Business Days after its due date, Tenant will pay to Lessor, on demand, a one-time late charge fee of \$100 or 10% of Base Rent, whichever is greater.

BASE RENT	TERM
\$13,996.64	3/1/2020 – 2/28/2021
\$14,276.58	3/1/2021 – 2/28/2022
\$14,562.11	3/1/2022 – 2/28/2023

1.7 Security Deposit. None

1.8 Brokers. None.

2. Definitions. The following terms shall have the following meanings in this Lease:

2.1 Alterations. Any alterations, additions or improvements made in, on or about the Building by Tenant after the Commencement Date including, but not limited to, lighting, heating, ventilating, air conditioning, electrical, partitioning, drapery and carpentry installations.

2.2 Commencement Date. The Commencement Date of this Lease shall be as specified in Section 1 of this Agreement.

2.3 Common Areas. All areas and facilities outside the Premises and within the exterior boundary line of the Project and interior utility raceways and installations within the Premises that are provided and designated by the Lessor from time to time for the general nonexclusive use of Lessor Lessee and other tenants of the Project and their respective employees, suppliers, shippers, customers, contractors and invitees, including, but not limited to common entrances, lobbies, corridors, stairwells, public restrooms, elevators, parking areas, loading and unloading areas, trash areas, roadways, walkways, driveways and landscaped areas.

2.4 Common Area Allocation. Exhibit B

2.5 HVAC. Heating, ventilating and air conditioning.

2.6 Landlord's Agents. Landlord's agents, managers, officers, and employees.

2.7 Rent. The Monthly Base Rent.

2.8 Sublet. Any transfer, sublet, assignment, license or concession agreement, change of ownership, mortgage, or hypothecation of this Lease or the Tenant's interest in the Lease or any portion thereof.

2.9 Subtenant. The person or entity with whom a Sublet agreement is proposed to be or is made.

2.10 Tenant Improvements. The improvements to the Premises to be constructed by Tenant.

2.11 Tenant's Agents. Tenant's agents, directors, officers, and employees.

2.12 Tenant's Personal Property. Tenant's trade fixtures, furniture, equipment and other personal property in the Building.

3. Lease Term and Termination.

3.1 Term. The term of this Lease ("Term") shall be three (3) years, beginning on the Commencement Date and terminating March 1, 2023 unless sooner terminated as provided herein.

3.2 Termination. Tenant shall have the right to terminate the Lease with no less than thirty (30) day written notice to Landlord. Except as otherwise provided or agreed upon between the Parties, Landlord shall provide the Tenant no less than ninety (90) day written notice of intent to terminate the Lease.

4. Rent.

4.1 Monthly Base Rent Tenant shall pay to Landlord, in lawful money of the United States, commencing on the Commencement Date and continuing thereafter, Monthly Base Rent in the amounts set forth in Paragraph 1.5 of this Agreement. Base Rent shall be payable by the 5th of each calendar month.

5. Condition of Premises.

5.1 Premises. Landlord shall deliver possession of the Premises to Tenant on the date this Lease is fully executed, in "AS IS" condition. Tenant shall be deemed to have accepted the Premises in good, clean condition and repair, subject to all applicable federal, state and local laws, statutes, ordinances and governmental regulations, including the Americans with Disabilities Act (collectively, "Laws"), and without limiting Landlord's continuing repair, maintenance and other obligations under this Lease.

6. USE.

6.1 Tenant's Use. General office and laboratory use.

6.2 Compliance. Tenant shall not use the Premises or suffer or permit anything to be done in or about the Premises which will in any way conflict with any Laws which may now or hereafter be in force. Tenant shall not commit any public or private nuisance or any other act or thing which might or would disturb the quiet enjoyment of any occupant of nearby property. Tenant shall place no loads upon the floors, walls or ceilings in excess of the maximum designed load reasonably determined by Landlord or which endanger the structure; nor place any harmful liquids in the drainage systems; nor dump or store waste materials or refuse or allow such to remain outside the Building proper, except in the enclosed trash areas provided, if any. Tenant shall not store or permit to be stored or otherwise placed any other material of any nature whatsoever outside the Building.

6.3 Hazardous Materials. With the exception of office and cleaning supplies typically used for the permitted uses of the Premises, Tenant shall not store any Hazardous Materials as identified in 22 California Code of Regulations Sections 66261.1 et seq., as they may be amended from time to time at the Premises or Common Areas thereto.

7. Quiet Enjoyment. Landlord covenants that Tenant, upon performing the terms, conditions and covenants of this Lease, shall have quiet and peaceful possession of the Premises as against any person claiming the same by, through or under Landlord.

8. Alterations. After the Commencement Date, Tenant shall not make or permit any Alterations in, on or about the Premises without the prior written consent of Landlord, which consent shall not be unreasonably withheld, conditioned or delayed; provided, however, that Landlord's consent shall not be required for any nonstructural Alterations that do not exceed ten thousand dollars (\$10,000) in cost per year and do not affect the roof of the Building or the Building Systems so long as Tenant provides Landlord with prior notice of any such Alterations ("Permitted Alterations"). Tenant shall complete any Alterations to the Premises at Tenant's sole expense, in compliance with all applicable Laws, including any permit requirements, by a licensed contractor, and in a good and workmanlike manner conforming in quality and design with the Premises existing as of the Commencement Date. If Tenant removes any Alterations as required or permitted herein Tenant shall repair any and all damage to the Premises caused by such removal and return the Premises to their condition as of the Commencement Date, normal wear and tear excepted. Tenant shall be solely responsible for the maintenance and repair of any Alterations made by it to the Premises.

9. **Surrender of the Premises.** Upon the expiration or earlier termination of the Term, Tenant shall surrender the Premises to Landlord in good condition and repair, normal wear and tear and condemnation, fire or other casualty, and repair and maintenance of the Premises that Landlord is obligated to perform under this Lease excepted. Tenant shall remove from the Premises all of Tenant's Alterations required by this Agreement, and all Tenant's Personal Property and repair any damage and perform any restoration work caused by such removal. If Tenant fails to remove such Alterations and Tenant's Personal Property, and such failure continues after the termination of this Lease, Landlord may retain such property and all rights of Tenant with respect to it shall cease, or Landlord may place all or any portion of such property in public storage for Tenant's account. Tenant shall be liable to Landlord for costs of removal of any such Alterations and Tenant's Personal Property and storage and transportation costs of same, and the cost of repairing and restoring the Premises, together with interest at the Interest Rate from the date of expenditure by Landlord.

10. **Utilities and Services.** Tenant shall contract for and pay directly to the provider thereof all charges for water, gas, electricity, sewer, telephone, refuse pickup, and all other utilities, materials and services furnished to the Premises during the Term, together with any taxes thereon. Landlord shall not be liable in damages, consequential or otherwise, nor shall Tenant be entitled to any Rent reduction, Rent abatement or right to terminate this Lease, as result of any failure or interruption of any utility service or other service furnished to the Premises. Landlord shall use diligent efforts to promptly correct any failure or interruption of utilities or services caused by the act or neglect of Landlord. Notwithstanding the foregoing or anything to the contrary in this Lease, if the Premises or a material portion of the Premises, is made untenantable, inaccessible or unsuitable for the ordinary conduct of Tenant's business, as a result of any interruption of any of the foregoing utilities that is caused by the negligence or willful misconduct of Landlord (or any of Landlord's Agents or contractors), then (i) Landlord shall use commercially reasonable efforts to restore the same as soon as reasonably practicable, and (ii) if, despite such commercially reasonable efforts by Landlord, such interruption persists for a period in excess of three (3) consecutive business days, then Tenant shall be entitled to an abatement of Rent payable hereunder during the period beginning on the fourth (4th) consecutive day of such interruption and ending on the day the utility or service has been restored.

11. **Repair and Maintenance.**

11.1 **Landlord's Obligations.** Landlord shall at all times and at its own expense clean, keep and maintain in good safe and sanitary order, condition and repair the foundation of the Building, the concrete sub-flooring, the structural elements of the roof, the structural condition of exterior and load-bearing walls, footings and any underground sewer, electrical and other underground utilities serving the Building, except that (subject to Paragraph 11.2) any damage to any of the foregoing that is caused by Tenant, its agents, employees or invitees, shall be repaired at Tenant's expense. Landlord shall also maintain, repair and replace, as necessary, the roof membrane of the Building; the Building elevators; the HVAC and fire and life safety systems serving the Building; all exterior glass; and the Outside Area.

11.2 **Tenant's Obligations.** Tenant shall at all times and at its own expense, clean, keep and maintain in good, safe and sanitary order, condition and repair every part of the Building which is not within Landlord's obligation pursuant to Paragraph 11.1. Tenant's repair and maintenance obligations shall include, without limitation, all plumbing and sewage fixtures located within and exclusively serving the Building, all fixtures, interior surfaces of all walls, floor coverings, ceiling surfaces, interior windows, store front, doors, entrances, interior plate-glass, showcases, all electrical facilities and equipment located within and exclusively serving the Building, including lighting fixtures, lamps, any supplemental HVAC equipment installed by or for Tenant, any automatic fire extinguisher equipment within the Building, electrical motors and all other appliances and equipment of every kind and nature located within and exclusively serving the Building. Tenant shall provide, at Tenant's expense, all janitorial service to the Building and all pest control for the Premises. Tenant shall have the benefit of any warranties available to Landlord with respect to any improvements or equipment to be maintained by Tenant as provided herein.

11.3 Compliance with Laws. Tenant shall, at its cost, comply with all Laws arising from Tenant's use or occupancy of the Premises. The foregoing shall not include the obligation to complete any Alterations to the Premises which may be required by Laws unless such Alterations are required solely as a result of the specific nature of Tenant's use of the Premises (other than uses of the Building by tenants in general) or any other Alterations made to the Premises by Tenant. If any Alterations to the Premises are required by any Laws and such Alterations are not required solely as a result of the specific nature of Tenant's use of the Premises or any other Alterations made to the Premises by Tenant, then Landlord shall make the required Alterations to the Premises at its own cost.

12. Liens. Tenant shall keep the Premises free from any liens arising out of any work performed, materials furnished, or obligations incurred by or on behalf of Tenant by any third party and hereby indemnifies and holds Landlord and Landlord's Agents harmless from all liability and cost, including attorneys' fees and costs, in connection with or arising out of any such lien or claim of lien.

13. Landlord's Right to Enter the Premises. Tenant shall permit Landlord and Landlord's Agents to enter the Premises, including the Building, at all reasonable times with not less than one (1) business days' prior notice, except for emergencies, in which case no notice shall be required, to inspect the same, to post Notices of Non-responsibility and similar notices, to show the Premises to interested parties such as prospective lenders and purchasers, to make necessary repairs, to discharge Tenant's obligations hereunder when Tenant is in Default of such obligations, and at any reasonable to show the Premises to prospective tenants. The above rights are subject to reasonable security regulations of Tenant, and to the requirement that Landlord shall at all times act in a manner to minimize interference with Tenant's business.

14. Signs. Subject to Tenant's receipt of all necessary governmental approvals, Tenant shall have the right to install a Tenant identification sign on the exterior of building within which the Premises is located, at both front and back exits. All costs associated with Tenant's signage, including installation, maintenance, repair and removal, shall be paid by Tenant. Tenant shall remove its exterior signage upon the expiration or sooner termination of this Lease and shall repair any damage to the monument sign and/or the building exterior caused by the installation and/or removal of Tenant's signage. If Tenant fails to maintain its signs, or, if Tenant fails to remove its signs upon termination of this Lease, Landlord may do so at Tenant's expense.

15. Insurance.

15.1 Tenant's Indemnification. Except to the extent caused by the negligence or willful misconduct of Landlord or Landlord's Agents, Tenant shall indemnify, defend and hold Landlord and Landlord's Agents harmless from and against any and all claims, damage, loss, liability or expense including, without limitation, attorney's fees and legal costs, arising from (a) Tenant's use of the Premises or the conduct of its business or from any activity, work, or thing done, permitted or suffered by Tenant in or about the Premises, or (b) the negligence or willful misconduct of Tenant or Tenant's Agents. Tenant agrees that the obligations assumed herein shall survive this Lease.

15.2 Landlords Indemnification. Except to the extent caused by the negligence or willful misconduct of Tenant or Tenant's Agents, Landlord shall indemnify, defend and hold Tenant and Tenant's Agents harmless from and against any and all claims, damage, loss, liability or expense including, without limitation, attorney's fees and legal costs, arising from the gross negligence or willful misconduct of Landlord or Landlord's Agents. Landlord agrees that the obligations assumed herein shall survive this Lease.

15.3 Insurance.

(a) Tenant's Insurance. Tenant agrees to maintain in full force and effect at all times during the Term, at its own expense, for the protection of Tenant and Landlord, as their interests may appear, commercial general liability insurance, with an occurrence basis in an amount not less than \$1,000,000 per occurrence and \$2,000,000 general aggregate, naming Landlord, Landlord's Agents, and Landlord's lender as additional insureds.

(b) Landlord's Insurance. Landlord shall also maintain commercial general liability insurance, in addition to, and not in lieu of, the insurance required to be maintained by Tenant.

15.4 Certificates. Each party hereto, as applicable, shall be entitled to receive upon a five (5) day written notice, a copy of the certificates of insurance, evidencing the coverage with limits not less than those specified above.

16. Damage or Destruction.

16.1 Partial Damage Insured If the Premises are damaged by any casualty which is covered under the special form insurance carried by Landlord, and such restoration can be completed within ninety (90) days after the date of such casualty, as reasonably determined by Landlord's independent construction contractor, then Landlord shall promptly restore the Premises to substantially the same condition as existed prior to the casualty. In such event, this Lease shall continue in full force and effect, except that Tenant shall be entitled to a proportionate reduction of Rent from the date of casualty until such restoration is completed, such proportionate reduction to be based upon the extent to which the damage and/or restoration efforts interfere with Tenant's use of the Premises, as reasonably agreed upon between Tenant and Landlord.

Any dispute between Landlord and Tenant as to the amount of any rent reduction hereunder shall be resolved by arbitration in accordance with the Expedited Arbitration Procedures set forth below. Landlord shall provide Tenant with written notice of the estimated repair period as soon as reasonably possible following the damage or destruction, which estimate shall be provided by a licensed and experienced independent construction contractor. If the estimated repair period exceeds ninety (90) days after the date of the damage and if the damage is so extensive as to reasonably prevent Tenant's substantial use and enjoyment of the Premises, then Tenant may elect to terminate this Lease by written notice to Landlord within three (3) days following Tenant's receipt of Landlord's estimated repair period notice. If this Lease is terminated, Landlord shall refund to Tenant the Security Deposit then held by Landlord in accordance with the provisions of this Lease and any Rent previously paid by Tenant which is allocable to the period after the date of damage or destruction.

ANY DISPUTE BETWEEN THE PARTIES THAT IS REQUIRED TO BE ARBITRATED UNDER THIS LEASE SHALL BE RESOLVED BY EXPEDITED ARBITRATION BEFORE ONE (1) ARBITRATOR. THE ARBITRATION SHALL BE ADMINISTERED BY JAMS PURSUANT TO THE JAMS COMPREHENSIVE ARBITRATION RULES AND PROCEDURE, MODIFIED AS FOLLOWS: (I) THE TOTAL TIME FROM DATE OF DEMAND FOR ARBITRATION TO FINAL AWARD SHALL NOT EXCEED 45 DAYS; (II) ALL NOTICES MAY BE BY TELEPHONE OR OTHER ELECTRONIC COMMUNICATION WITH LATER CONFIRMATION IN WRITING; (III) THE TIME, DATE, AND PLACE OF THE HEARING SHALL BE DETERMINED BY THE ARBITRATOR IN HIS OR HER SOLE DISCRETION, PROVIDED THAT THERE SHALL BE AT LEAST 10 BUSINESS DAYS PRIOR TO THE HEARING; (IV) THERE SHALL BE NO POST-HEARING BRIEFS; (V) THERE SHALL BE NO DISCOVERY EXCEPT BY ORDER OF THE ARBITRATOR.

ARBITRATOR; AND (VI) THE ARBITRATOR SHALL ISSUE HIS OR HER AWARD WITHIN TEN (10) BUSINESS DAYS AFTER THE C THE HEARING. THE ARBITRATION SHALL BE HELD IN THE COUNTY IN WHICH THE PREMISES ARE LOCATED. THE DECISIO ARBITRATOR SHALL BE FINAL AND BINDING ON THE PARTIES AND JUDGMENT ON THE AWARD RENDERED BY THE ARBI MAY BE ENTERED IN ANY COURT OF COMPETENT JURISDICTION. THE FEES AND EXPENSES OF THE ARBITRATOR SHALL HALF BY LANDLORD AND HALF BY TENANT UNLESS THE ARBITRATOR DECIDES OTHERWISE IN ITS DECISION. The foregoing procedures are collectively referred to herein as the "Expedited Arbitration Procedures".

16.2 Partial Damage – Uninsured. If the Premises are damaged by any casualty which is not covered under the special form insurance carried by Landlord and the cost to repair the damage will exceed five percent (5%) of the replacement cost of the Premises, then Landlord shall have the option either to (i) repair or restore the Premises, in which event this Lease shall continue in full force and effect with the Rent to be proportionately abated; or (ii) give notice to Tenant within ten (10) days after the date of such casualty terminating this Lease as of a date to be specified in such notice. If notice of termination is given, this Lease shall expire, and all interest of Tenant in the Premises shall terminate on such date so specified in such notice and the Rent, reduced by any proportionate reduction based upon the extent, if any, to which such damage interfered with the use of the Premises by Tenant, shall be paid to the date of such termination. If this Lease is terminated by Tenant or Landlord under this Section 16.2, Landlord shall refund to Tenant the Security Deposit then held by Landlord in accordance with the provisions of this Lease and any Rent previously paid by Tenant which is allocable to the period after the date of damage or destruction. Further, if Landlord does not complete its required restoration within ninety (90) days after the time period estimated by Landlord to repair the damage as specified in its notice to Tenant, Tenant may terminate this Lease by delivering written notice to Landlord. Such termination shall be effective as of the date specified in Tenant's termination notice as if such date were the date fixed for the expiration of the Term. Notwithstanding the foregoing, if upon the receipt of Tenant's written election to terminate this Lease as provided in this Section 16.2, Landlord reasonably believes it can complete its required restoration within thirty (30) days following the receipt of such notice, Landlord may, in its sole discretion, elect to proceed with such restoration and, provided Landlord substantially completes such required restoration within such 30-day period, Tenant's election to terminate shall be null and void.

16.3 Total Destruction. If the Premises are totally destroyed or the Premises cannot be reasonably restored and/or used under applicable Law; or due to the presence of hazardous factors such as earthquake faults, chemical waste, environmental or unhealthful conditions and similar dangers, notwithstanding the availability of insurance proceeds, this Lease shall be terminated effective as of the date of such event.

17. Condemnation. If title to all of the Premises or so much thereof is taken or appropriated for any public or quasi-public use under any statute or by right of eminent domain so that reconstruction of the Premises will not, in Landlord's and Tenant's mutual reasonable judgment, result in the Premises being suitable for Tenant's continued occupancy for the uses and purposes permitted by this Lease, this Lease shall terminate as of the date that possession of the Premises or part thereof be taken, provided that if the parties disagree, the Lease shall not terminate and the issue as to whether the remaining Premises are suitable for Tenant's continued occupancy for the uses permitted by this Lease shall be submitted into arbitration in accordance with the Expedited Arbitration Procedures.

18. Assignment and Subletting.

18.1 Landlord's Consent. Tenant shall not enter into a Sublet without Landlord's prior written consent, which consent shall not be unreasonably withheld, conditioned or delayed. Any attempted or purported Sublet without Landlord's prior written consent shall be void and confer no rights upon any third person and shall be deemed a material default of this Lease.

19. Default.

19.1 Tenant's Default. A default under this Lease by Tenant shall exist if any of the following events shall occur (a "Default"):

(a) If Tenant fails to pay Rent or any other sum required to be paid hereunder within three (3) days after written notice of such failure from Landlord; provided, however, that any such notice given and served upon Tenant pursuant to the requirements of Section 1161 of the California Code of Civil Procedure regarding unlawful detainer actions shall be deemed to be in lieu of, and not in addition to, any notice that may be required hereunder; or

(b) If Tenant shall have failed to perform any term, covenant or condition of this Lease except those requiring the payment of money, and Tenant shall have failed to cure such breach within thirty (30) days after written notice from Landlord where such breach could reasonably be cured within such thirty (30) day period; provided, however, that where such failure could not reasonably be cured within the thirty (30) day period, that Tenant shall not be in default if it commences such performance within the thirty (30) day period and diligently thereafter prosecutes the same to completion; or

(c) If Tenant assigns its assets for the benefit of its creditors; or

(d) If a court shall make or enter any decree or order other than under the bankruptcy laws of the United States adjudging Tenant to be insolvent; or approving as properly filed a petition seeking reorganization of Tenant; or directing the winding up or liquidation of Tenant and such decree or order shall have continued for a period of thirty (30) days.

19.2 Remedies. Upon a Default, Landlord shall have the following remedies, in addition to all other rights and remedies provided by law or otherwise provided in this Lease, to which Landlord may resort cumulatively or in the alternative:

(a) Landlord may continue this Lease in full force and effect, and this Lease shall continue in full force and effect as long as Landlord does not terminate this Lease, and Landlord shall have the right to collect Rent when due.

(b) Landlord may terminate this Lease and Tenant's right to possession of the Premises at any time by giving written notice to that effect, subject to all applicable legal due process requirements, and relet the Premises or any part thereof. Tenant shall be liable immediately to Landlord for all costs Landlord incurs in reletting the Premises or any part thereof, including, without limitation, broker's commissions, and expenses of cleaning the Premises required by the reletting costs. Reletting may be for a period shorter or longer than the remaining Term of this Lease. On termination and Landlord's recovery of legal possession of the Premises, Landlord has the right to remove all Tenant's Personal Property left on the Premises by Tenant and store same at Tenant's cost.

19.3 **Landlord's Default.** Landlord shall not be deemed to be in default in the performance of any obligation required to be performed by it hereunder unless and until it has failed to perform such obligation within a reasonable time but in no event longer than fifteen (15) days after receipt of written notice by Tenant to Landlord specifying the nature of such default. If Landlord is in default pursuant to this Paragraph 19.3, then Tenant may proceed to take the required action to cure such default upon delivery of an additional five (5) days' notice ("Self-Help Notice") to Landlord specifying that Tenant is taking such required action (provided, however, that such additional notice shall not be required in the event of an emergency). If such required action is not taken by Landlord within said 5-day period, then Tenant shall be entitled to take such required action and to receive reimbursement from Landlord for all reasonable and actual out-of-pocket costs and expenses incurred by Tenant in connection with such required action, plus interest on all such costs at the Interest Rate (which out-of-pocket costs, plus interest, are referred to herein as the "Reimbursement Amount").

20. **Subordination.** Landlord shall have the right to cause this Lease to be and become and remain subject and subordinate to any and all ground and underlying liens, leases, mortgages and deeds of trust (collectively "Encumbrances") which may hereafter be executed covering the Premises, or any renewals, modifications, consolidations, replacements or extensions thereof, for the full amount of all advances made or to be made thereunder and without regard to the time or character of such advances, together with interest thereon and subject to all the terms and provisions thereof; provided that Tenant's agreement to subordinate or attorn in favor of any holder or holders ("Holder") of any such Encumbrance will be subject to such Holder agreeing to recognize and not to disturb Tenant's possession of the Premises pursuant to a commercially reasonable subordination, non-disturbance and attornment agreement. Tenant shall execute any such agreement within ten (10) business days after Landlord's written request. Notwithstanding the foregoing, if the Holder of any Encumbrance requires that this Lease to be prior and superior thereto, then within fifteen (10) business days after Landlord's written request, Tenant shall execute, have acknowledged and deliver any and all reasonable documents or instruments which Landlord or Holder deems necessary or desirable for such purposes. Landlord represents and warrants to Tenant that, as of the date of this Lease, there are no Encumbrances which are a lien against the Premises.

21. **Notices.** Any notice or demand required or desired to be given under this Lease shall be in writing and shall be personally served or in lieu of personal service may be given by Federal Express or other reputable overnight courier service, or by e-mail with confirmation of receipt. If given by overnight courier service, such notice shall be deemed to be effective upon the next business day after deposit with the courier service. At the date of execution of this Lease, the addresses of Landlord and Tenant are as set forth on page 1 of this Lease. Either party may change its address by giving notice of same in accordance with this Paragraph 21.

22. **Attorneys' Fees.** If either party brings any action, legal proceeding or arbitration proceeding for damages for an alleged breach of any provision of this Lease, to recover rent, or other sums due, to terminate the tenancy of the Premises or to enforce, protect or establish any term, condition or covenant of this Lease or right of either party, the prevailing party shall be entitled to recover as a part of such action or proceedings, or in a separate action brought for that purpose, reasonable attorneys' fees and costs.

23. Transfer of the Premises by Landlord. In the event of any conveyance of the Premises and assignment by Landlord of this Lease, Landlord shall be and is hereby entirely released from all liability under any and all of its covenants and obligations contained in or derived from this Lease first accruing after the date of such conveyance and assignment, provided such transferee assumes Landlord's obligations under this Lease arising after the transfer, and Tenant agrees to attorn to such transferee.

24. Tenant's Remedy. If, as a consequence of a Default by Landlord under this Lease, Tenant recovers a money judgment against Landlord, such judgment shall be satisfied only out of the proceeds of sale received upon execution of such judgment and levied thereon against the right, title and interest of Landlord in the Premises and out of rent or other income from the Premises received by Landlord or out of consideration received by Landlord from the sale or other disposition of all or any part of Landlord's right, title or interest in the Premises, and neither Landlord nor Landlord's Agents shall be liable for any deficiency.

25. Acceptance. Delivery of this Lease, duly executed by Tenant, constitutes an offer to lease the Premises, and under no circumstances shall such delivery be deemed to create an option or reservation to lease the Premises for the benefit of Tenant. This Lease shall only become effective and binding upon full execution hereof by Landlord and delivery of a signed copy to Tenant.

26. Recording. Neither party shall record this Lease or any memorandum thereof.

27. General.

27.1 Captions. The captions and headings used in this Lease are for the purpose of convenience only and shall not be construed to limit or extend the meaning of any part of this Lease.

27.2 Executed Copy. This Lease may be executed in one or more counterparts, each of which shall constitute an original and all of which shall be one and the same agreement. The parties agree to accept a digital image (including but not limited to an image in the form of a PDF, JPEG, GIF file, or other electronic signature) of this Lease, if applicable, reflecting the execution of one or both of the parties, as a true and correct original. Any fully executed copy of this Lease shall be deemed an original for all purposes.

27.3 Time. Time is of the essence for the performance of each term, condition and covenant of this Lease.

27.4 Separability. If one or more of the provisions contained herein, except for the payment of Rent, is for any reason held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality, or unenforceability shall not affect any other provision of this Lease, but this Lease shall be construed as if such invalid, illegal or unenforceable provision had not been contained herein.

27.5 Choice of Law. This Lease shall be construed and enforced in accordance with the laws of the State of California. The language in all parts of this Lease shall in all cases be construed as a whole according to its fair meaning and not strictly for or against either Landlord or Tenant.

27.6 Binding Effect. The covenants and agreement contained in this Lease shall be binding on the parties hereto and on their respective successors and assigns to the extent this Lease is assignable.

27.7 Waiver. The waiver by Landlord or Tenant of any breach of any term, condition or covenant, of this Lease shall not be deemed to be a waiver of such provision or any subsequent breach of the same or any other term, condition or covenant of this Lease. The subsequent acceptance of Rent hereunder by Landlord or payment of Rent hereunder by Tenant shall not be deemed to be a waiver of any preceding breach at the time of acceptance or making of such payment other than with respect to the Rent so accepted. No covenant, term or condition of this Lease shall be deemed to have been waived by Landlord or Tenant unless such waiver is in writing signed by Landlord or Tenant as applicable.

27.8 Entire Agreement. This Lease constitutes the entire agreement between the parties, and there are no agreements or representations between the parties except as expressed herein. Except as otherwise provided herein, no subsequent change or addition to this Lease shall be binding unless in writing and signed by the parties hereto.

27.9 Authority. Landlord represents that it holds legal title to the Premises and has the right to enter into this Lease. If Tenant or Landlord is a corporation, limited liability company or a partnership, each individual executing this Lease on behalf of said corporation, limited liability company or partnership, as the case may be, represents and warrants that he is duly authorized to execute and deliver this Lease on behalf of said entity in accordance with its corporate bylaws, operating agreement, statement of partnership or certificate of limited partnership, as the case may be, and that this Lease is binding upon said entity in accordance with its terms.

27.10 Exhibits. All exhibits, amendments, riders and addenda attached hereto are hereby incorporated herein and made a part hereof.

[Signature page follows]

The parties hereto have executed this Lease at the place and on the dates specified above their respective signatures.

Executed at: 5950 Priestly Drive, Carlsbad, CA 92008 Executed at: 5950 Priestly Drive, Carlsbad, CA 92008

On: _____ On: _____

By LESSOR:

S Real Estate Holdings LLC

By LESSEE:

International Stem Cell Corporation

By: _____

Name Printed: Russell Kern

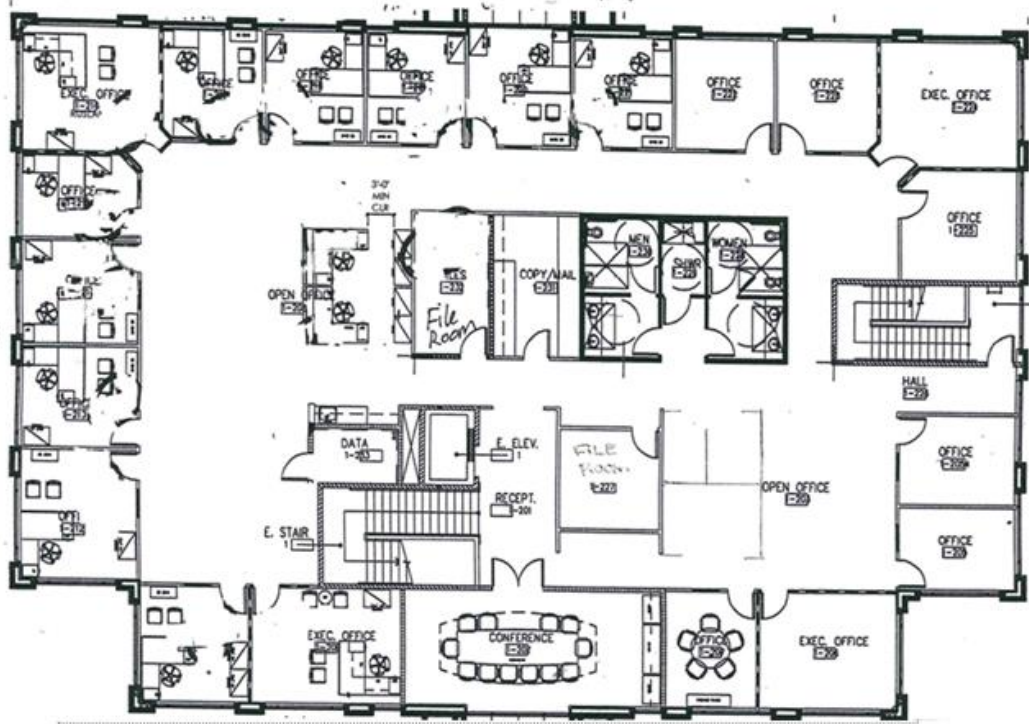
Title: Managing Member

By: _____

Name Printed: Sophia Garnette

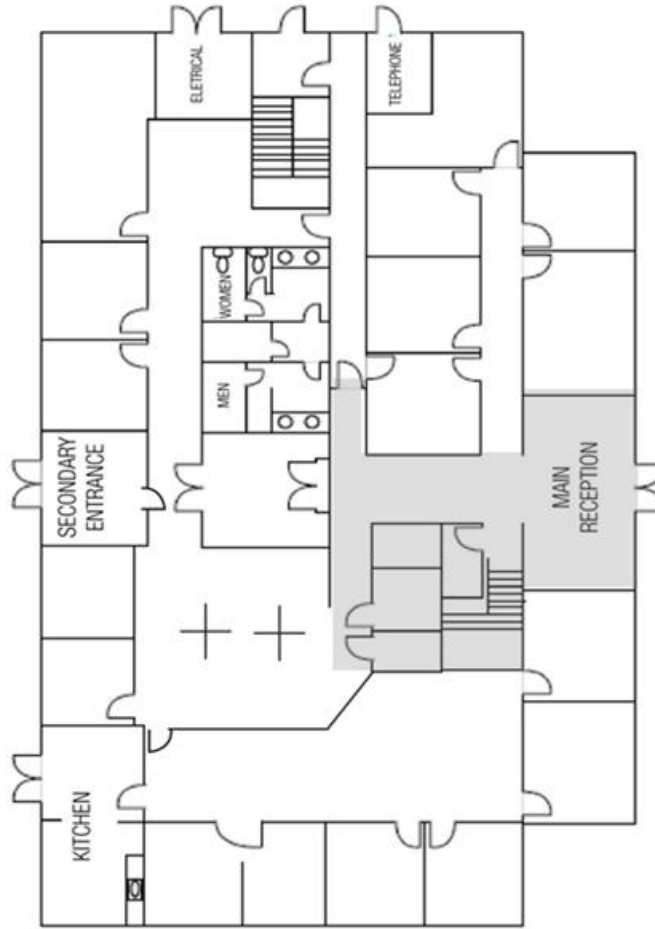
Title: VP, Legal Affairs and Operations

Exhibit A
PREMISES – Occupied Square Footage



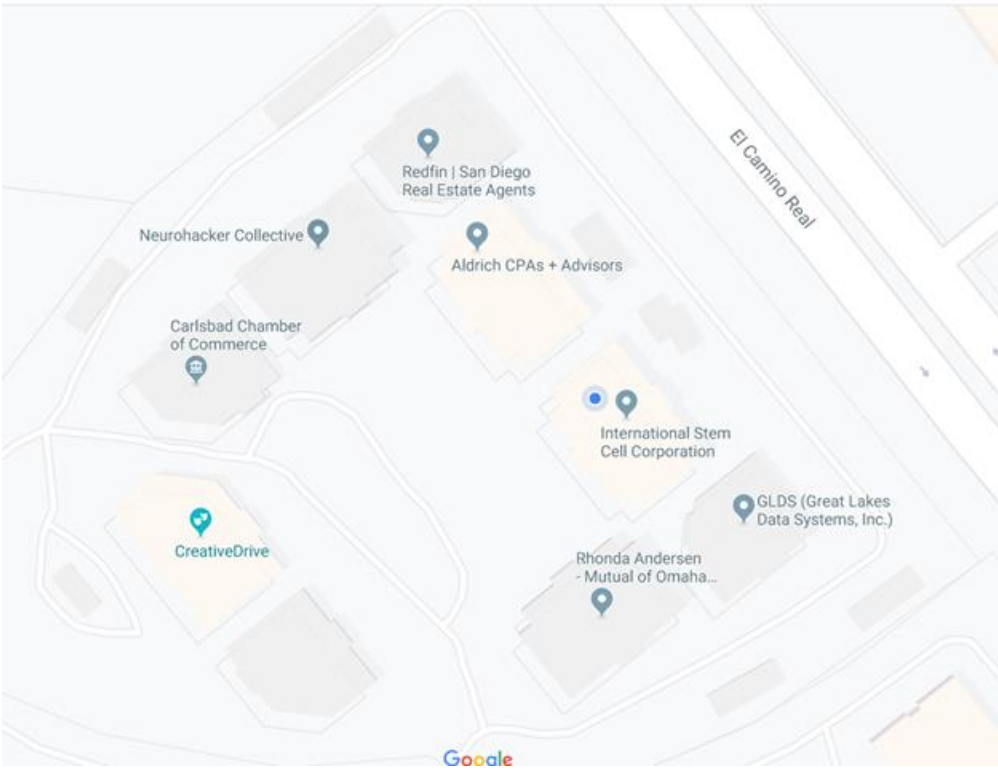
2ND FLOOR OCCUPIED SQ. FT.
MARCH 1, 2020
8,528 SQ. FT.

PREMISES – Occupied Square Footage



1st FLOOR COMMON AREA SPACE
APPROX. 500 SQ. FT.

Exhibit B
Common Area Allocation



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: June 19, 2020

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

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

I, Sophia Gamette, Vice President, Legal Affairs and Operations 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: June 19, 2020

By: /s/ Sophia Gamette
 Sophia Gamette
 Vice President, Legal Affairs and Operations
 (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 March 31, 2020, 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: June 19, 2020

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 March 31, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Sophia Gamette, Vice President, Legal Affairs and Operations 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: June 19, 2020

By: /s/ Sophia Gamette
Sophia Gamette
Vice President, Legal Affairs and Operations
(Principal Financial Officer)