

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 June 30, 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	None	None

Indicated by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES 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 August 10, 2020, the Registrant had 7,539,089 shares of Common Stock outstanding.

International Stem Cell Corporation and Subsidiaries

Form 10-Q

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PART I—FINANCIAL INFORMATION

**Item 1. Condensed Consolidated
Financial Statements (Unaudited)**

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

	June 30, 2020	December 31, 2019
Assets		
Current assets:		
Cash	\$ 1,315	\$ 484
Accounts receivable, net	694	1,515
Inventory, net	1,010	1,246
Prepaid expenses and other current assets	379	207
Total current assets	3,398	3,452
Non-current inventory	356	358
Property and equipment, net	607	668
Intangible assets, net	1,345	1,335
Right-of-use assets	1,006	717
Deposits and other assets	71	90
Total assets	<u>\$ 6,783</u>	<u>\$ 6,620</u>
Liabilities, Redeemable Convertible Preferred Stock and Stockholders' Deficit		
Current liabilities:		
Accounts payable	\$ 579	\$ 654
Accrued liabilities	507	642
Operating lease liabilities, current	323	367
Advances	250	250
Related party note payable	2,422	—
Total current liabilities	4,081	1,913
Related party note payable	—	2,370
Paycheck Protection Program loan	654	—
Fair value of warrant liability	322	207
Operating lease liabilities, net of current portion	1,031	718
Total liabilities	6,088	5,208
Commitments and contingencies (Note 8)		
Series D redeemable convertible preferred stock, \$0.001 par value; 50 shares authorized; 43 shares issued and outstanding; liquidation preference of \$4,300 at June 30, 2020 and December 31, 2019	4,300	4,300
Stockholders' 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 \$10,557 and \$10,550 at June 30, 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 June 30, 2020 and December 31, 2019	8	8
Additional paid-in capital	104,232	103,490
Accumulated deficit	(107,850)	(106,391)
Total stockholders' deficit	(3,605)	(2,888)
Total liabilities, redeemable convertible preferred stock and stockholders' deficit	<u>\$ 6,783</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 June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Product sales	\$ 1,812	\$ 2,321	\$ 4,171	\$ 4,539
Operating expenses:				
Cost of sales	719	857	1,576	1,698
Research and development	200	268	503	921
Selling and marketing	427	739	944	1,430
General and administrative	1,298	1,398	2,436	2,920
Total operating expenses	2,644	3,262	5,459	6,969
Loss from operations	(832)	(941)	(1,288)	(2,430)
Other income (expense):				
Change in fair value of warrant liability	(225)	311	(115)	908
Interest expense	(29)	(20)	(56)	(34)
Miscellaneous income	—	2	—	2
Total other income (expense), net	(254)	293	(171)	876
Net loss	\$ (1,086)	\$ (648)	\$ (1,459)	\$ (1,554)
Net loss per common share, basic and diluted	\$ (0.14)	\$ (0.09)	\$ (0.19)	\$ (0.21)
Weighted-average common shares used to compute net loss per share, basic and diluted	7,539	7,533	7,539	7,467

See accompanying notes to the unaudited condensed consolidated financial statements.

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

Three and Six Months Ended June 30, 2020									
	Series D Redeemable Convertible Preferred Stock		Non-redeemable Convertible Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' 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)
Stock-based compensation	—	—	—	—	—	—	324	—	324
Net loss	—	—	—	—	—	—	—	(1,086)	(1,086)
Balance at June 30, 2020	—	\$ 4,300	5,255	\$ 5	7,539	\$ 8	\$ 104,232	\$ (107,850)	\$ (3,605)

Three and Six Months Ended June 30, 2019									
	Series D Redeemable Convertible Preferred Stock		Non-redeemable Convertible Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' 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 bridge loan from a related party to common stock	—	—	—	—	599	1	1,048	—	1,049
Stock-based compensation	—	—	—	—	—	—	506	—	506
Net loss	—	—	—	—	—	—	—	(906)	(906)
Balance at March 31, 2019, as revised	—	4,300	5,255	5	7,533	8	101,905	(103,032)	(1,114)
Stock-based compensation	—	—	—	—	—	—	571	—	571
Net loss	—	—	—	—	—	—	—	(648)	(648)
Balance at June 30, 2019	—	\$ 4,300	5,255	\$ 5	7,533	\$ 8	\$ 102,476	\$ (103,680)	\$ (1,191)

See accompanying notes to the unaudited condensed consolidated financial statements.

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

	Six Months Ended June 30,	
	2020	2019
Cash flows from operating activities		
Net loss	\$ (1,459)	\$ (1,554)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	128	138
Operating lease expense	132	158
Stock-based compensation	742	1,077
Change in fair value of warrant liability	115	(908)
Allowance for inventory obsolescence	7	22
Interest expense on related party note payable	52	30
Changes in operating assets and liabilities:		
Accounts receivable	821	(325)
Inventory	231	184
Prepaid expenses and other current assets	(172)	103
Deposits and other assets	19	(16)
Accounts payable	(75)	273
Accrued liabilities	(142)	(21)
Operating lease liabilities	(152)	(150)
Net cash provided by (used in) operating activities	<u>247</u>	<u>(989)</u>
Cash flows from investing activities		
Purchases of property and equipment	(22)	(113)
Payments for patent licenses	(48)	(178)
Net cash used in investing activities	<u>(70)</u>	<u>(291)</u>
Cash flows from financing activities		
Proceeds from Paycheck Protection Program loan	654	—
Proceeds from note payable from a related party	—	800
Net cash provided by financing activities	<u>654</u>	<u>800</u>
Net increase (decrease) in cash	831	(480)
Cash, beginning of period	484	1,075
Cash, end of period	<u><u>\$ 1,315</u></u>	<u><u>\$ 595</u></u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	<u><u>\$ 3</u></u>	<u><u>\$ 3</u></u>
Supplemental disclosure of non-cash investing and financing activities:		
Right-of-use asset obtained in exchange for operating lease liability	<u><u>\$ 421</u></u>	<u><u>\$ —</u></u>
Patent license costs included in accrued liabilities	<u><u>\$ 7</u></u>	<u><u>\$ —</u></u>
Conversion of bridge loan from a related party to common stock	<u><u>\$ —</u></u>	<u><u>\$ 1,049</u></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 200 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 ("R&D") for the therapeutic market and is currently conducting clinical trials in Australia for the use of ISC-hpNSC® in the treatment of Parkinson's disease.

COVID-19 Pandemic

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

The Company is uncertain as to the full magnitude of effects that the COVID-19 pandemic will have on its financial condition, liquidity, and future results of operations. As of the date of this report, the Company is currently experiencing a year-over-year decline in the volume of product sales and in response has reduced its capital spending and, where possible, operating expenses while facilitating ongoing safe and reliable operations. In addition, management is actively monitoring the impact of COVID-19 on the Company's operations, workforce, suppliers, customers and industry. The full impact that COVID-19 will have on the Company's consolidated financial statements throughout and beyond 2020 remains uncertain and ultimately will be dictated by the length and severity of the pandemic, as well as the economic recovery and federal, state and local government actions taken in response. Therefore, the Company cannot reasonably predict the extent to which its consolidated financial statements will be impacted.

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") applicable to interim financial statements. 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 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 Company had an accumulated deficit of approximately \$107.9 million as of June 30, 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 the Company obtains additional

financing, the Company does not have sufficient cash on hand to sustain operations at least through one year after the issuance date of these financial statements.

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

The Company continues to evaluate various financing sources and options to raise working capital to help fund current research and development programs and operations. The Company will need to obtain significant additional funding from sources, including through the exercise of outstanding warrants, debt and/or equity financing, license arrangements, grants and/or collaborative research arrangements to sustain its operations and develop products.

The timing and degree of any future capital requirements will depend on 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 COVID-19 or other pandemics arising globally, and the current and future impact that such concerns may have on the Company's operations and funding requirements.

As a result of the COVID-19 pandemic and actions taken to slow its spread, the global credit and financial markets have recently experienced extreme volatility and disruptions, including diminished liquidity and credit availability, declines in consumer confidence, declines in economic growth, increases in unemployment rates and uncertainty about economic stability. If equity and credit markets continue to deteriorate, it may make any additional debt and/or equity financing more difficult, more costly and more dilutive.

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

Principles of Consolidation and Foreign Currency Transactions

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. The functional currency of the Company and its subsidiaries, including its wholly-owned Australian subsidiary, Cyto Therapeutics, is the U.S. dollar. Assets and liabilities that are not denominated in the functional currency are remeasured into U.S. dollars at foreign currency exchange rates in effect at the respective balance sheet dates. Revenue and expenses are translated at the average rate in effect on the date of the transaction. Net realized and unrealized gains and losses from foreign currency transactions and remeasurement are reported in general and administrative expense in the accompanying condensed consolidated statements of operations and were not material for the periods presented.

Reclassifications

For the three and six months ended June 30, 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' deficit. Refer to Note 6 – Convertible Preferred Stock and Stockholders' Deficit for further discussion;
- Non-cash operating lease expense was reclassified from changes in operating assets and liabilities to adjustments to reconcile net loss to net cash provided by (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' 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 accompanying 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. The Company recorded an allowance for doubtful accounts of \$12,000 as of June 30, 2020 and December 31, 2019.

Research and Development Tax Credit Receivable

As of June 30, 2020, the Company recognized a research and development tax credit receivable within prepaid expenses and other current assets on the accompanying condensed consolidated balance sheets earned by its wholly-owned subsidiary, Cyto Therapeutics, which conducts various research and development activities on the Company's product candidates in Australia. Under Australian tax

law, the Australian Taxation Office provides for a refundable tax credit in the form of a cash refund equal to 43.5% of qualified research and development expenditures, not to exceed established thresholds. The Company recognizes the R&D tax credit as a reduction to research and development expense when there is reasonable assurance that the tax credit will be received, the relevant expenses have been incurred, and the amount can be reliably measured.

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 June 30, 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 circumstances ("triggering event") indicate that the carrying value of an asset or group of assets may not be recovered. If a triggering event is determined to have occurred, the carrying value of an asset or group of assets is compared to the future undiscounted cash flows expected to be generated by the asset or group of assets. If the carrying value exceeds the undiscounted cash flows of the asset or group of assets, then impairment exists. 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 June 30, 2020				Six Months Ended June 30, 2020			
	Domestic	International	Total Revenues	% of Total Revenues	Domestic	International	Total Revenues	% of Total Revenues
Biomedical products								
Cells	\$ 213	\$ 87	\$ 300	22%	\$ 475	\$ 204	\$ 679	20%
Media	994	85	1,079	77%	2,461	210	2,671	79%
Other	16	—	16	1%	16	—	16	1%
Total	<u>\$ 1,223</u>	<u>\$ 172</u>	<u>\$ 1,395</u>	<u>100%</u>	<u>\$ 2,952</u>	<u>\$ 414</u>	<u>\$ 3,366</u>	<u>100%</u>

	Three Months Ended June 30, 2019				Six Months Ended June 30, 2019			
	Domestic	International	Total Revenues	% of Total Revenues	Domestic	International	Total Revenues	% of Total Revenues
Biomedical products								
Cells	\$ 283	\$ 86	\$ 369	20%	\$ 455	\$ 186	\$ 641	18%
Media	1,357	121	1,478	80%	2,758	237	2,995	82%
Other	3	—	3	—	3	—	3	—
Total	<u>\$ 1,643</u>	<u>\$ 207</u>	<u>\$ 1,850</u>	<u>100%</u>	<u>\$ 3,216</u>	<u>\$ 423</u>	<u>\$ 3,639</u>	<u>100%</u>

Anti-aging cosmetic market:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2020		2019		2020		2019	
	Total Revenues	% of Total Revenues	Total Revenues	% of Total Revenues	Total Revenues	% of Total Revenues	Total Revenues	% of Total Revenues
Cosmetic sales channels								
Ecommerce	\$ 299	72%	\$ 225	48%	\$ 522	65%	\$ 440	49%
Professional	118	28%	246	52%	283	35%	460	51%
Total	<u>\$ 417</u>	<u>100%</u>	<u>\$ 471</u>	<u>100%</u>	<u>\$ 805</u>	<u>100%</u>	<u>\$ 900</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 June 30, 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 June 30, 2020 and December 31, 2019, accounts receivable totaled \$694,000 and \$1.5 million, respectively. For the six months ended June 30, 2020 and 2019, the Company did not incur material write-offs of its accounts receivable.

Practical Expedients

The Company has elected the practical expedient to not determine whether contracts with customers contain significant financing components. The Company pays commissions on certain sales for its biomedical and 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 June 30, 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, offset by the R&D tax credit discussed above.

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 June 30, 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 June 30, 2020				
Warrant liability	\$ 322	\$ —	\$ —	\$ 322
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	115
Balance at June 30, 2020	\$ 322

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 (expense), net, in the accompanying condensed consolidated statements of operations.

The following assumptions were used as inputs to the model:

	June 30, 2020	December 31, 2019
Risk-free interest rate	0.17%	1.55% - 1.59%
Volatility	90.0%	85.0%
Term to expiration (in years)	0.71	0.29 - 1.21
Subsequent financing	0.0%	0.0%

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, Paycheck Protection Program loan and related party note payable as of June 30, 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 remeasurement 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 three and six months ended June 30, 2020 and 2019, there was 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 June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Options outstanding	4,620,033	5,669,933	4,739,281	5,669,933
Common stock warrants outstanding	3,948,951	3,951,052	3,950,002	3,951,052
Redeemable convertible preferred stock	2,457,143	2,457,142	2,457,143	2,457,142
Non-redeemable convertible preferred stock	3,675,135	3,675,134	3,675,135	3,675,134
Total	14,701,262	15,753,261	14,821,561	15,753,261

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 and six months ended June 30, 2020 and 2019.

Customer Concentrations

During the six months ended June 30, 2020 and 2019, for the biomedical market segment, one customer accounted for approximately 47% and 52%, respectively, of consolidated revenues. As of June 30, 2020 and December 31, 2019, the customer accounted for approximately 63% and 37%, respectively, of accounts receivable, net. No other single customer accounted for more than 10% of revenues for the periods then ended.

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

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):

	June 30, 2020	December 31, 2019
Raw materials	\$ 641	\$ 688
Work in process	427	492
Finished goods	1,100	1,219
	2,168	2,399
Less: allowance for inventory excess and obsolescence	(802)	(795)
Total current and non-current inventory, net	\$ 1,366	\$ 1,604
Inventory, net	\$ 1,010	\$ 1,246
Non-current inventory	356	358
Total current and non-current inventory, net	\$ 1,366	\$ 1,604

3. Property and Equipment

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

	June 30, 2020	December 31, 2019
Machinery and equipment	\$ 1,661	\$ 1,642
Computer equipment and software	236	236
Office equipment	230	230
Leasehold improvements	1,304	1,290
Construction in progress	1	12
	3,432	3,410
Less: accumulated depreciation and amortization	(2,825)	(2,742)
Property and equipment, net	\$ 607	\$ 668

Depreciation and amortization expense for the three months ended June 30, 2020 and 2019 was \$43,000 and \$37,000, respectively. Depreciation and amortization expense for the six months ended June 30, 2020 and 2019 was \$83,000 and \$75,000, respectively.

4. Intangible Assets

Intangible Assets consists of the following (in thousands):

	June 30, 2020	December 31, 2019
Patents	\$ 2,323	\$ 2,268
Less: accumulated amortization	(1,053)	(1,008)
	1,270	1,260
Indefinite life logos and trademarks	75	75
Intangible assets, net	\$ 1,345	\$ 1,335

Amortization expense for the three months ended June 30, 2020 and 2019 was \$23,000 and \$28,000, respectively. Amortization expense for the six months ended June 30, 2020 and 2019 was \$45,000 and \$62,000, respectively.

5. Paycheck Protection Program Loan

In May 2020, the Company received a loan of \$654,000 from its lender under the Paycheck Protection Program (the "PPP Loan"). The Paycheck Protection Program ("PPP"), as amended, was established under the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") and is administered by the U.S. Small Business Administration ("SBA"). The PPP Loan 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 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. Based in part on the Company's assessment of other sources of liquidity, uncertainty associated with future revenues created by the COVID-19 pandemic, and the going concern uncertainty reflected in the Company's condensed consolidated financial statements, the Company believes in good faith that it met the eligibility requirements for the PPP Loan. If 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.

The PPP Loan has a two-year term and bears interest at a rate of 1% per annum. Principal and interest payments are deferred for ten months following the loan forgiveness period, which is defined as the 24-week period following the loan origination date, at which time the loan balance is payable in monthly installments unless the Company applies for, and receives, forgiveness in accordance with the CARES Act and the terms of the loan executed by the Company and its lender. As required by the CARES Act, the Company plans to use the proceeds from the PPP Loan for payroll, healthcare benefits, rent and other qualifying expenses. The PPP provides that the use of the PPP Loan shall be limited to certain qualifying expenses and may be partially or wholly forgiven by the SBA in accordance with the requirements set forth in the CARES Act. While the Company intends to apply for forgiveness of the PPP Loan, there can be no assurance that the Company will obtain forgiveness of the PPP Loan in whole or in part. As of June 30, 2020, the outstanding principal and accrued interest of the PPP Loan was classified as non-current on the accompanying condensed consolidated balance sheets based on the contractual payment schedule of the PPP Loan.

6. Convertible Preferred Stock and Stockholders' 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 June 30, 2020 consist of the following:

	Shares Authorized	Shares Issued and Outstanding	Liquidation Preference	Carrying Value
			(in thousands)	
Series B	5,000,000	250,000	\$ 433	\$ —
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	\$ 10,557	\$ 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 June 30, 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 connection with financing arrangements. As of December 31, 2019, 2,483 common stock warrants issued in October 2014 were outstanding. In April 2020, the common stock warrants issued in October 2014 expired unexercised. The common stock warrants issued in March 2016 expire on March 15, 2021. As of June 30, 2020 and December 31, 2019, 3,948,569 common stock warrants issued in March 2016 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. In June 2020, the Company amended the 2010 Plan to extend the term of the 2010 Plan until March 2030; no other material provisions were amended.

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	245,714	\$ 1.08		
Forfeited, canceled or expired	(378,168)	\$ 2.25		
Outstanding at June 30, 2020	4,804,219	\$ 3.36	7.76	\$ —
Vested and expected to vest at June 30, 2020	4,697,444	\$ 3.40	7.74	\$ —
Exercisable at June 30, 2020	3,404,379	\$ 4.14	7.40	\$ —

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.

The fair value of restricted stock awards is based on the market value of the common stock on the date of grant. For the three and six months ended June 30, 2020 and 2019, no restricted stock awards were awarded or vested. As of June 30, 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. The weighted-average assumptions used in the Black-Scholes option valuation model to determine the fair value of stock options grants for the three and six months ended June 30, 2020 and 2019 were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Risk-free interest rate	0.37%	1.84%	0.37%	2.44%
Expected stock price volatility	88.82%	85.78%	88.82%	84.95%
Expected dividend yield	0%	0%	0%	0%
Expected life of options (in years)	5.36	5.37	5.36	5.71

Total stock-based compensation expense for the three and six months ended June 30, 2020 and 2019 was comprised of the following (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Cost of sales	\$ 21	\$ 30	\$ 45	\$ 54
Research and development	30	155	79	310
Selling and marketing	20	34	42	57
General and administrative	253	352	576	656
Total	<u>\$ 324</u>	<u>\$ 571</u>	<u>\$ 742</u>	<u>\$ 1,077</u>

Unrecognized compensation expense related to stock options as of June 30, 2020 was \$1.3 million, which is expected to be recognized over a weighted-average period of approximately 1.2 years.

Common Stock Reserved for Future Issuance

As of June 30, 2020, the Company had shares of common stock reserved for future issuance as follows:

Options outstanding	4,804,219
Common stock warrants outstanding	3,948,569
Common stock available for issuance under the 2010 Plan	4,733,056
Redeemable convertible preferred stock	2,457,143
Non-redeemable convertible preferred stock	3,675,135
Total	<u>19,618,122</u>

7. 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 six months ended June 30, 2020 and 2019, the Company recorded \$84,000 and \$80,000, 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 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 "Conversion Note"). The outstanding principal amount under the Conversion Note accrued interest at a rate of 4.5% per annum. The Conversion Note was due and payable on January 15, 2020.

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 the Conversion Note 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.

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.

8. 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 7 –Related Party Transactions);
- Oceanside, California – primary research facility and laboratory space with a term date of December 2021;
- 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 June 30, 2020, total right-of-use assets and operating lease liabilities were approximately \$1.0 million and \$1.4 million, respectively. All operating lease expense is recognized on a straight-line basis over the lease term. For the six months ended June 30, 2020 and 2019 rent expense was \$237,000 and \$253,000, respectively. As of June 30, 2020, the Company had no finance leases.

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

Years ending December 31,	
2020 (remaining six months)	\$ 255
2021	518
2022	394
2023	255
2024	233
2025	240
Total minimum lease payments	1,895
Less: imputed interest	(541)
Total future minimum lease payments	1,354
Less: operating lease liabilities, current	(323)
Operating lease liabilities, net of current portion	\$ 1,031

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.

9. 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 and six months ended June 30, 2020 and 2019 by market segment were as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Revenues:				
Biomedical market	\$ 1,395	\$ 1,850	\$ 3,366	\$ 3,639
Anti-aging cosmetic market	417	471	805	900
Total revenues	1,812	2,321	4,171	4,539
Operating expenses:				
Therapeutic market	952	1,141	1,784	2,800
Biomedical market	1,281	1,404	2,722	2,850
Anti-aging cosmetic market	411	717	953	1,319
Total operating expenses	2,644	3,262	5,459	6,969
Operating income (loss)				
Therapeutic market	(952)	(1,141)	(1,784)	(2,800)
Biomedical market	114	446	644	789
Anti-aging cosmetic market	6	(246)	(148)	(419)
Total operating loss	\$ (832)	\$ (941)	\$ (1,288)	\$ (2,430)

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 ("Form 10-K"). The discussion contains forward-looking statements, such as our plans, expectations and intentions (including those related to clinical trials and business and expense trends), that are based upon current expectations and that involve risks and uncertainties. Our actual results may differ significantly from management's expectations. The factors that could affect these forward-looking statements are discussed in the Risk Factors included in our Form 10-K. This discussion should not be construed to imply that the results discussed herein will necessarily continue into the future, or that any expectations expressed herein will necessarily be indicative of actual operating results in the future. Such discussion represents only the best assessment by our management.

Business Overview

We are 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. We have the following wholly-owned subsidiaries:

- Lifeline Cell Technology, LLC ("LCT") – for the biomedical market, develops, manufactures and commercializes primary human cell research products including over 200 human cell culture products, 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 our 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.

We generated aggregate product sales revenues from our two commercial businesses of \$4.2 million and \$4.5 million for the six months ended June 30, 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. 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").

We have never been profitable and have incurred net losses on an annual basis since inception. Substantially all of our net losses resulted from costs incurred in connection with our research and development programs and from general and administrative costs associated with our operations. We expect to continue to incur operating losses for at least the foreseeable future. Our net losses may fluctuate significantly from quarter to quarter and year to year.

We do not expect to generate any revenues from sales of any therapeutic products until we successfully complete development and obtain regulatory approval for one or more of our product candidates, which we expect will take a number of years. If we obtain regulatory approval for any of our product candidates, we expect to incur significant commercialization expenses related to product sales, marketing, manufacturing and distribution. Accordingly, we will seek to fund our operations through public or private equity or debt financings or other sources, including one or more collaborative arrangements with larger companies to share specified development and commercialization expenses. However, we may be unable to raise additional funds or enter into such other arrangements when needed on favorable terms or at all. Our failure to raise capital or enter into such other arrangements when needed would have a negative effect on our financial condition and ability to develop our product candidates.

COVID-19 Pandemic

The impact of the COVID-19 pandemic has been and will likely continue to be extensive in many aspects of society, which has resulted in and will likely continue to result in significant disruptions to the global economy, as well as businesses and capital markets around the world. Impacts to our business have included a reduction in sales volume primarily from our biomedical market segment, temporary or reduced occupancy of portions of our manufacturing facilities, and disruptions or restrictions on our employee's ability to travel to such manufacturing facilities which caused minor delays in manufacturing. Our manufacturing facilities continue to operate as they are deemed essential suppliers in accordance with laws applicable to California and Maryland. We have taken precautionary measures to better ensure the health and safety of our workers, including staggering employees' shifts and isolating at-risk employees.

The scope and duration of these delays and disruptions, and the ultimate impacts of COVID-19 on our operations, are currently unknown. We are continuing to actively monitor the situation and may take further precautionary and preemptive actions as may be required by federal, state or local authorities or that we determine are in the best interests of public health and safety. We cannot predict the effects that such actions, or the impact of COVID-19 on global business operations and economic conditions, may have on our business, strategy, collaborations, or financial and operating results.

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 develops, manufactures and commercializes over 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. 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).

In response to COVID-19, we are continuing to assess potential market opportunities, including the development of new products or services, to address shifting demand and the needs of global health service providers.

Results of Operations

Comparison of the Three Months Ended June 30, 2020 and 2019

The following table summarizes our results of operations for the three months ended June 30, 2020 and 2019, together with the dollar and percent change in those items (in thousands):

	Three Months Ended June 30,			
	2020	2019	\$ Change	% Change
Product sales	\$ 1,812	\$ 2,321	\$ (509)	-22%
Cost of sales	719	857	(138)	-16%
As a % of revenues	40%	37%		
Research and development	200	268	(68)	-25%
Selling and marketing	427	739	(312)	-42%
General and administrative	1,298	1,398	(100)	-7%
Other income (expense), net	(254)	293	(547)	-187%
Net loss	\$ (1,086)	\$ (648)	\$ (438)	68%
As a % of revenues	-60%	-28%		

Product Sales

Product sales revenue for the three months ended June 30, 2020, was \$1.8 million, compared to \$2.3 million for the three months ended June 30, 2019. The decrease of \$509,000, or 22%, was primarily attributable to a decrease in cell and media product sales in 2020 compared to 2019 from our biomedical market segment, partially offset by an increase in e-commerce sales from our anti-aging cosmetic market.

Our cell and media product sales were adversely impacted by COVID-19 as universities and research laboratories in the United States closed, slowed or shifted operations during the beginning of the second quarter of 2020. In addition, original equipment manufacturers have reduced purchases as inventory turnover has slowed. This may result in a continued decline in product sales as such customers deplete excess inventory through the remainder of 2020.

Our professional skin care products, which are largely marketed and sold to spas that offer walk-up retail and medical professionals, also experienced a significant decline in customer demand due to COVID-19 as businesses were closed or limited.

operations to essential health services during the quarter ended June 30, 2020. This decline was partially offset by an increase in e-commerce sales year over year due to customer demand.

Cost of Sales

Cost of sales for the three months ended June 30, 2020, was \$719,000, compared to \$857,000 for the three months ended June 30, 2019. The decrease of \$138,000, or 16%, was consistent with the decrease in product sales, partially offset by \$156,000 in unfavorable manufacturing variances and absorption due to reduced customer demand. In addition, profit margins declined 3% for the three months ended June 30, 2020 compared to 2019, primarily as a result of an increase in promotions and discounts to drive sales of certain products to offset the impact of COVID-19. We may modify or expand certain product promotions and discounts through the end of 2020 as we further assess the impact of COVID-19 on our business.

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 June 30, 2020, was \$200,000, compared to \$268,000 for the three months ended June 30, 2019. The decrease of \$68,000, or 25%, was primarily attributable to a \$230,000 decrease in personnel-related costs and stock-based compensation primarily as a result of headcount reductions following the conclusion of the treatment phase of the clinical trial in Australia and a \$17,000 decrease in materials and supplies, partially offset by a \$95,000 decrease in our research and development tax credit related to qualifiable expenditures from our research and development activities of our Australia subsidiary, Cyto Therapeutics, and a \$94,000 increase in consulting fees. We expect to continue to experience a decline in research and development expense year over year as we await results from our phase 1 clinical trial of ISChpNSC®, which are expected to be received by the end of 2020.

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 Expenses

Selling and marketing expenses for the three months ended June 30, 2020, was \$427,000, compared to \$739,000 for the three months ended June 30, 2019. The decrease of \$312,000, or 42%, was primarily attributable to a \$161,000 decrease in personnel-related costs and stock-based compensation primarily as a result of headcount reductions, a \$92,000 decrease in marketing, travel and tradeshow expenses, and a \$15,000 decrease in consulting services.

General and Administrative Expenses

General and administrative expenses for the three months ended June 30, 2020, was \$1.3 million, compared to \$1.4 million for the three months ended June 30, 2019. The decrease of \$100,000, or 7%, was primarily attributable to a decrease in stock-based compensation of \$100,000, a \$22,000 decrease in filing-related fees and a \$21,000 decrease in investor relations fees, partially offset by a \$25,000 increase in legal fees and a \$21,000 increase in annual shareholder meeting expenses.

Other Income (Expense), Net

Other expense, net, for the three months ended June 30, 2020, was \$254,000, compared to other income, net, of \$293,000 for the three months ended June 30, 2019. The decrease of \$547,000, or 187%, in other income (expense), net, was primarily attributable to the change in the fair value of the warrant liability of \$536,000.

Comparison of the Six Months Ended June 30, 2020 and 2019

The following table summarizes our results of operations for the six months ended June 30, 2020 and 2019, together with the dollar and percent change in those items (in thousands):

	Six Months Ended June 30,			
	2020	2019	\$ Change	% Change
Product sales	\$ 4,171	\$ 4,539	\$ (368)	-8%
Cost of sales	1,576	1,698	(122)	-7%
<i>As a % of revenues</i>	<i>38%</i>	<i>37%</i>		
Research and development	503	921	(418)	-45%
Selling and marketing	944	1,430	(486)	-34%
General and administrative	2,436	2,920	(484)	-17%
Other income (expense), net	(171)	876	(1,047)	-120%
Net loss	\$ (1,459)	\$ (1,554)	\$ 95	-6%
<i>As a % of revenues</i>	<i>-35%</i>	<i>-34%</i>		

Product Sales

Product sales revenue for the six months ended June 30, 2020, was \$4.2 million, compared to \$4.5 million for the six months ended June 30, 2019. The decrease of \$368,000, or 8%, was primarily attributable to a decrease in cell and media product sales in 2020 compared to 2019 from our biomedical market segment, partially offset by an increase in e-commerce sales from our anti-aging cosmetic market.

Our cell and media product sales were adversely impacted by COVID-19 as universities and research laboratories in the United States closed, slowed or shifted operations during the beginning of the second quarter of 2020. In addition, original equipment manufacturers have reduced purchases as inventory turnover has slowed. This may result in a continued decline in product sales as such customers deplete excess inventory through the remainder of 2020.

Our professional skin care products, which are largely marketed and sold to spas that offer walk-up retail and medical professionals, also experienced a decline in customer demand primarily due to COVID-19 as businesses were closed or limited operations to essential health services during the six months ended June 30, 2020. This decline was partially offset by an increase in e-commerce sales year-over-year due to customer demand.

Cost of Sales

Cost of sales for the six months ended June 30, 2020, was \$1.6 million, compared to \$1.7 million for the six months ended June 30, 2019. The decrease of \$122,000, or 7%, was consistent with the decrease in product sales, partially offset by \$94,000 in unfavorable manufacturing variances and absorption due to reduced customer demand. Profit margins remained consistent for the six months ended June 30, 2020 compared to 2019, largely as a result of improved profit margins in the first quarter of 2020, offset by a decline in profit margins in the second of quarter of 2020 as a result of an increase in promotions and discounts to offset the impact of COVID-19.

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 six months ended June 30, 2020, was \$503,000, compared to \$921,000 for the six months ended June 30, 2019. The decrease of \$418,000, or 45%, was primarily attributable to a \$447,000 decrease in personnel-related costs and stock-based compensation primarily as a result of headcount reductions following the conclusion of the treatment phase of the clinical trial in Australia and a \$38,000 decrease in materials and supplies, partially offset by a \$95,000 decrease in our research and development tax credit related to qualifiable expenditures from our research and development activities of our Australia subsidiary, Cyto Therapeutics. We expect to continue to experience a decline in research and development expense year over year as we await results from our phase 1 clinical trial of ISC-hpNSC®, which are expected to be received by the end of 2020.

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 Expenses

Selling and marketing expenses for the six months ended June 30, 2020, was \$944,000, compared to \$1.4 million for the six months ended June 30, 2019. The decrease of \$486,000, or 34%, was primarily attributable to a \$259,000 decrease in personnel-related costs and stock-based compensation primarily as a result of headcount reductions, a \$136,000 decrease in marketing and tradeshow related expenses and a \$48,000 decrease in consulting and creative services.

General and Administrative Expenses

General and administrative expenses for the six months ended June 30, 2020, was \$2.4 million, compared to \$2.9 million for the six months ended June 30, 2019. The decrease of \$484,000, or 17%, was primarily attributable to a \$308,000 decrease in audit and filing-related fees, a \$99,000 decrease in personnel-related costs and stock-based compensation primarily as a result of headcount reductions, a \$46,000 decrease in investor relations fees and a \$35,000 decrease in consulting fees.

Other Income (Expense), Net

Other expense, net, for the six months ended June 30, 2020, was \$171,000, compared to other income, net, of \$876,000 for the six months ended June 30, 2019. The decrease of \$1.0 million, or 120%, in other income (expense), net, was primarily attributable to the change in the fair value of the warrant liability of \$1.0 million.

Liquidity and Capital Resources

As of June 30, 2020, we had an accumulated deficit of approximately \$107.9 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 \$1.5 million and \$1.6 million for six months ended June 30, 2020 and 2019, respectively. As of June 30, 2020, we had cash of \$1.3 million, compared to \$595,000 as of June 30, 2019.

In May 2020, we received a \$654,000 loan (the "PPP Loan") from the U.S. Small Business Administration ("SBA") 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. 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 SBA. Our primary use of cash is to continue to fund our research and development programs and operations.

Cash Flows

Comparison of the Six Months Ended June 30, 2020 and 2019

The following table provides information regarding our cash flows for the six months ended June 30, 2020 and 2019 (in thousands):

	Six Months Ended June 30,	
	2020	2019
Net cash provided by (used in) operating activities	\$ 247	\$ (989)
Net cash used in investing activities	(70)	(291)
Net cash provided by financing activities	654	800
Net increase (decrease) in cash	\$ 831	\$ (480)

Operating Cash Flows

For the six months ended June 30, 2020, net cash provided by operating activities was \$247,000, resulting primarily from our net loss of \$1.5 million, adjusted for non-cash stock-based compensation expense of \$742,000, coupled with net changes in operating assets and liabilities of \$530,000. The net changes in operating assets and liabilities were primarily attributable to a \$821,000 decrease in accounts receivable and a \$231,000 decrease in inventory, partially offset by a \$172,000 increase in prepaid expenses and other current assets. For the six months ended June 30, 2019, net cash used in operating activities was \$989,000, resulting primarily from our net losses of \$1.6 million and non-cash adjustments of \$908,000 for change in fair value of warrant liability, partially offset by stock-based compensation of \$1.1 million, and net changes in operating assets and liabilities of \$48,000.

Investing Cash Flows

Net cash used in investing activities for the six months ended June 30, 2020 was \$70,000, compared to \$291,000 for the six months ended June 30, 2019. The decrease of \$221,000 was attributable to a decrease in purchases of property and equipment of \$91,000 and a decrease in payments for patent licenses of \$130,000 year over year.

Financing Cash Flows

Net cash provided by financing activities for the six months ended June 30, 2020 was \$654,000, compared to \$800,000 for the six months ended June 30, 2019. The decrease of \$146,000 was attributable to proceeds from a note payable from a related party of \$800,000 received in the prior year, offset by proceeds from the Paycheck Protection Program loan of \$654,000 in the current year.

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 COVID-19 or other pandemics arising globally, and the current and future impact that such concerns may have on our operations and funding requirements.

As a result of the COVID-19 pandemic and actions taken to slow its spread, the global credit and financial markets have recently experienced extreme volatility and disruptions, including diminished liquidity and credit availability, declines in consumer confidence, declines in economic growth, increases in unemployment rates and uncertainty about economic stability. If the equity and credit markets continue to deteriorate, it may make any additional debt or equity financing more difficult, more costly and more dilutive. Our failure to raise capital or enter into applicable arrangements when needed would have a negative impact on our financial condition. Additional debt financing may be expensive and require 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.

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 June 30, 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 six months ended June 30, 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 June 30, 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 June 30, 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 June 30, 2020 that our certifying officers concluded materially affected, or are reasonably likely to materially affect our internal control over financial reporting. We have not experienced any material impact to our internal controls over financial reporting despite the fact that a majority of our employees are working remotely due to the COVID-19 pandemic.

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 June 30, 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

None.

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>2010 Equity Participation Plan, as amended.</u>
10.2*	<u>Promissory Note, dated May 4, 2020, by and between the Company and Wells Fargo Bank, N.A.</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

Exhibit	Description
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
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: August 12, 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)

**International Stem Cell Corporation
2010 Equity Participation Plan
(as amended through June 23, 2020)**

1. ESTABLISHMENT, PURPOSE AND TERM OF PLAN.

1.1 Establishment. The International Stem Cell Corporation. 2010 Equity Participation Plan (the "Plan") is hereby established effective as of March 29, 2010 (the "**Effective Date**"), the date of its adoption by the Board, subject to the approval of the Company's stockholders.

1.2 Purpose. The purpose of the Plan is to advance the interests of the Participating Company Group and its stockholders by providing an incentive to attract, retain and reward persons performing services for the Participating Company Group and by motivating such persons to contribute to the growth and profitability of the Participating Company Group. The Company seeks to achieve this purpose by providing for Awards in the form of Options and Restricted Stock Awards.

1.3 Term of Plan. The Plan shall continue in effect until its termination by the Committee; provided, however, that all Awards shall be granted, if at all, before March 26, 2030.

2. DEFINITIONS AND CONSTRUCTION.

2.1 Definitions. Whenever used herein, the following terms shall have their respective meanings set forth below:

(a) "**Affiliate**" means (i) a parent entity, other than a Parent Corporation, that directly, or indirectly through one or more intermediary entities, controls the Company or (ii) a subsidiary entity, other than a Subsidiary Corporation, that is controlled by the Company directly or indirectly through one or more intermediary entities. For this purpose, the terms "parent," "subsidiary," "control" and "controlled by" shall have the meanings assigned such terms for the purposes of registration of securities on Form S-8 under the Securities Act.

(b) "**Award**" means any Option or Restricted Stock Award granted under the Plan or the Prior Plan.

(c) "**Award Agreement**" means a written or electronic agreement between the Company and a Participant setting forth the terms, conditions and restrictions applicable to an Award.

(d) "**Board**" means the Board of Directors of the Company.

(e) "**Cashless Exercise**" means a Cashless Exercise as defined in Section 6.3(b)(i).

(f) "**Cause**" means (i) in the case in which the Participant does not have an employment, consulting or similar agreement in effect with the Company or an Affiliate at the time of grant of the Option or Restricted Stock Award or in the case in which there is such an agreement but it does not define "cause" (or words of similar import), conduct related to the Participant's Service to the Company or an Affiliate for which either criminal or civil penalties against the Participant may be sought, misconduct, insubordination, material violation of the Company's or an Affiliate's policies, disclosing or misusing any confidential information or material concerning the Company or any Affiliate or material breach of any employment, consulting agreement or similar agreement; or (ii) in the case in which the Participant has an employment agreement, consulting agreement or similar agreement in effect with the Company or its Affiliate at the time of grant of the Option or Restricted Stock Award that defines a termination for "cause" (or words of similar import) "cause" as defined in such agreement; provided, however, that with regard to any agreement that defines "cause" on the occurrence of or in connection with a change in control (as defined in such agreement), such definition of "cause" shall not apply until a change in control actually occurs and then only with regard to a termination thereafter.

(g) "**Change in Control**" means, unless such term or an equivalent term is otherwise defined by the applicable Award Agreement or other written agreement between the Participant and a Participating Company applicable to an Award, the occurrence of any one or a combination of the following:

(i) any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) becomes the "beneficial owner" (as such term is defined in Rule 13d-3 promulgated under the Exchange Act), directly or indirectly, of securities of the Company representing more than fifty percent (50%) of the total Fair Market Value or total

combined voting power of the Company's then-outstanding securities entitled to vote generally in the election of Directors; provided, however, that a Change in Control shall not be deemed to have occurred if such degree of beneficial ownership results from any of the following: (A) an acquisition by any person who on the Effective Date is the beneficial owner of more than fifty percent (50%) of such voting power, (B) any acquisition directly from the Company, including, without limitation, pursuant to or in connection with a public offering of securities, (C) any acquisition by the Company, (D) any acquisition by a trustee or other fiduciary under an employee benefit plan of a Participating Company or (E) any acquisition by an entity owned directly or indirectly by the stockholders of the Company in substantially the same proportions as their ownership of the voting securities of the Company; or

(ii) an Ownership Change Event or series of related Ownership Change Events (collectively, a **"Transaction"**) in which the stockholders of the Company immediately before the Transaction do not retain immediately after the Transaction direct or indirect beneficial ownership of more than fifty percent (50%) of the total combined voting power of the outstanding securities entitled to vote generally in the election of Directors or, in the case of an Ownership Change Event described in Section 2.1(x)(iii), the entity to which the assets of the Company were transferred (the **"Transferee"**), as the case may be; or

(iii) approval by the stockholders of a plan of complete liquidation or dissolution of the Company; provided, however, that a Change in Control shall be deemed not to include a transaction described in subsections (i) or (ii) of this Section 2.1(g) in which a majority of the members of the board of directors of the continuing, surviving or successor entity, or parent thereof, immediately after such transaction is comprised of Incumbent Directors.

For purposes of the preceding sentence, indirect beneficial ownership shall include, without limitation, an interest resulting from ownership of the voting securities of one or more corporations or other business entities which own the Company or the Transferee, as the case may be, either directly or through one or more subsidiary corporations or other business entities. The Committee shall determine whether multiple acquisitions of the voting securities of the Company and/or multiple Ownership Change Events are related and to be treated in the aggregate as a single Change in Control, and its determination shall be final, binding and conclusive.

(h) **"Code"** means the Internal Revenue Code of 1986, as amended, and any applicable regulations or administrative guidelines promulgated thereunder.

(i) **"Committee"** means the Compensation Committee and such other committee or subcommittee of the Board, if any, duly appointed to administer the Plan and having such powers in each instance as shall be specified by the Board. If, at any time, there is no committee of the Board then authorized or properly constituted to administer the Plan, the Board shall exercise all of the powers of the Committee granted herein, and, in any event, the Board may in its discretion exercise any or all of such powers.

(j) **"Company"** means International Stem Cell Corporation., a Delaware corporation, or any successor corporation thereto.

(k) **"Consultant"** means a person engaged to provide consulting or advisory services (other than as an Employee or a member of the Board) to a Participating Company, provided that the identity of such person, the nature of such services or the entity to which such services are provided would not preclude the Company from offering or selling securities to such person pursuant to the Plan in reliance on registration on Form S-8 under the Securities Act.

(l) **"Director"** means a member of the Board.

(m) **"Disability"** means the permanent and total disability of the Participant, within the meaning of Section 22(e)(3) of the Code.

(n) **"Employee"** means any person treated as an employee (including an Officer or a member of the Board who is also treated as an employee) in the records of a Participating Company and, with respect to any Incentive Stock Option granted to such person, who is an employee for purposes of Section 422 of the Code; provided, however, that neither service as a member of the Board nor payment of a director's fee shall be sufficient to constitute employment for purposes of the Plan. The Company shall determine in good faith and in the exercise of its discretion whether an individual has become or has ceased to be an Employee and the effective date of such individual's employment or termination of employment, as the case may be. For purposes of the Plan, as of the time of the Company's determination of whether or not the individual is an Employee, all such determinations by the Company shall be

final, binding and conclusive as to such rights, if any, notwithstanding that the Company or any court of law or governmental agency subsequently makes a contrary determination as to such individual's status as an Employee.

(o) "**Exchange Act**" means the Securities Exchange Act of 1934, as amended.

(p) "**Fair Market Value**" means, as of any date, the value of a share of Stock or other property as determined by the Committee, in its discretion, or by the Company, in its discretion, if such determination is expressly allocated to the Company herein, subject to the following:

(i) Except as otherwise determined by the Committee, if, on such date, the Stock is listed or quoted on a national or regional securities exchange or quotation system, the Fair Market Value of a share of Stock shall be the closing price of a share of Stock as quoted on the national or regional securities exchange or quotation system constituting the primary market for the Stock, as reported in *The Wall Street Journal* or such other source as the Company deems reliable. If the relevant date does not fall on a day on which the Stock has traded on such securities exchange or quotation system, the date on which the Fair Market Value shall be established shall be the last day on which the Stock was so traded or quoted prior to the relevant date, or such other appropriate day as shall be determined by the Committee, in its discretion.

(ii) Notwithstanding the foregoing, the Committee may, in its discretion, determine the Fair Market Value of a share of Stock on the basis of the opening, closing, or average of the high and low sale prices of a share of Stock on such date or the preceding trading day, the actual sale price of a share of Stock received by a Participant, any other reasonable basis using actual transactions in the Stock as reported on a national or regional securities exchange or quotation system, or on any other basis consistent with the requirements of Section 409A of the Code. The Committee may vary its method of determination of the Fair Market Value as provided in this Section for different purposes under the Plan to the extent consistent with the requirements of Section 409A of the Code.

(iii) If, on such date, the Stock is not listed or quoted on a national or regional securities exchange or quotation system, the Fair Market Value of a share of Stock shall be as determined by the Committee in good faith without regard to any restriction other than a restriction which, by its terms, will never lapse, and in a manner consistent with the requirements of Section 409A of the Code.

(q) "**Incentive Stock Option**" means an Option intended to be (as set forth in the Award Agreement) and which qualifies as an incentive stock option within the meaning of Section 422(b) of the Code.

(r) "**Incumbent Director**" means a director who either (i) is a member of the Board as of the Effective Date or (ii) is elected, or nominated for election, to the Board with the affirmative votes of at least a majority of the Incumbent Directors at the time of such election or nomination (but excluding a director who was elected or nominated in connection with an actual or threatened proxy contest relating to the election of directors of the Company).

(s) "**Insider**" means an Officer, Director or any other person whose transactions in Stock are subject to Section 16 of the Exchange Act.

(t) "**Net Exercise**" means a Net Exercise as defined in Section 6.3(b)(iii).

(u) "**Nonstatutory Stock Option**" means an Option not intended to be (as set forth in the Award Agreement) or which does not qualify as an Incentive Stock Option.

(v) "**Officer**" means any person designated by the Board as an officer of the Company.

(w) "**Option**" means an Incentive Stock Option or a Nonstatutory Stock Option granted pursuant to the Plan.

(x) "**Ownership Change Event**" means the occurrence of any of the following with respect to the Company: (i) the direct or indirect sale or exchange in a single or series of related transactions by the stockholders of the Company of securities of the Company representing more than fifty percent (50%) of the total combined voting power of the Company's then outstanding securities entitled to vote generally in the election of Directors; (ii) a merger or consolidation in which the Company is a party; or (iii) the sale, exchange, or transfer of all or substantially all of the assets of the Company (other than a sale, exchange or transfer to one or more subsidiaries of the Company).

(y) "**Parent Corporation**" means any present or future "parent corporation" of the Company, as defined in Section 424(e) of the Code.

(z) "**Participant**" means any eligible person who has been granted one or more Awards.

(aa) "**Participating Company**" means the Company or any Parent Corporation, Subsidiary Corporation or Affiliate.

(bb) "**Participating Company Group**" means, at any point in time, the Company and all other entities collectively which are then Participating Companies.

(cc) "**Restricted Stock Award**" means an Award of Stock which is subject to certain Vesting Conditions.

(dd) "**Rule 16b-3**" means Rule 16b-3 under the Exchange Act, as amended from time to time, or any successor rule or regulation.

(ee) "**Securities Act**" means the Securities Act of 1933, as amended.

(ff) "**Service**" means a Participant's employment or service with the Participating Company Group, whether as an Employee, a Director or a Consultant. Unless otherwise provided by the Committee, a Participant's Service shall not be deemed to have terminated merely because of a change in the capacity in which the Participant renders such Service or a change in the Participating Company for which the Participant renders such Service, provided that there is no interruption or termination of the Participant's Service. Furthermore, a Participant's Service shall not be deemed to have been interrupted or terminated if the Participant takes any military leave, sick leave, or other bona fide leave of absence approved by the Company. However, unless otherwise provided by the Committee, if any such leave taken by a Participant exceeds ninety (90) days, then on the ninety-first (91st) day following the commencement of such leave the Participant's Service shall be deemed to have terminated, unless the Participant's right to return to Service is guaranteed by statute or contract. Notwithstanding the foregoing, unless otherwise designated by the Company or required by law, an unpaid leave of absence shall not be treated as Service for purposes of determining vesting under the Participant's Award Agreement. A Participant's Service shall be deemed to have terminated either upon an actual termination of Service or upon the business entity for which the Participant performs Service ceasing to be a Participating Company. Subject to the foregoing, the Company, in its discretion, shall determine whether the Participant's Service has terminated and the effective date of such termination.

(gg) "**Stock**" means the common stock of the Company, as adjusted from time to time in accordance with Section 4.3.

(hh) "**Stock Tender Exercise**" means a Stock Tender Exercise as defined in Section 6.3(b)(ii).

(ii) "**Subsidiary Corporation**" means any present or future "subsidiary corporation" of the Company, as defined in Section 424(f) of the Code.

(jj) "**Ten Percent Owner**" means a Participant who, at the time an Option is granted to the Participant, owns directly or indirectly stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of a Participating Company within the meaning of Section 422(b)(6) of the Code.

(kk) "**Vesting Conditions**" mean those conditions established in accordance with the Plan prior to the satisfaction of which shares subject to an Award remain subject to forfeiture or a repurchase option in favor of the Company exercisable for the Participant's monetary purchase price, if any, for such shares upon the Participant's termination of Service.

2.2 Construction. Captions and titles contained herein are for convenience only and shall not affect the meaning or interpretation of any provision of the Plan. Except when otherwise indicated by the context, the singular shall include the plural and the plural shall include the singular. Use of the term "or" is not intended to be exclusive, unless the context clearly requires otherwise.

3. ADMINISTRATION.

3.1 Administration by the Committee. The Plan shall be administered by the Committee. All questions of interpretation of the Plan, of any Award Agreement or of any other form of agreement or other document employed

by the Company in the administration of the Plan or of any Award shall be determined by the Committee, and such determinations shall be final, binding and conclusive upon all persons having an interest in the Plan or such Award, unless fraudulent or made in bad faith. Any and all actions, decisions and determinations taken or made by the Committee in the exercise of its discretion pursuant to the Plan or Award Agreement or other agreement thereunder (other than determining questions of interpretation pursuant to the preceding sentence) shall be final, binding and conclusive upon all persons having an interest therein. All expenses incurred in the administration of the Plan shall be paid by the Company.

3.2 Authority of Officers. Any Officer shall have the authority to act on behalf of the Company with respect to any matter, right, obligation, determination or election which is the responsibility of or which is allocated to the Company herein, provided the Officer has apparent authority with respect to such matter, right, obligation, determination or election.

3.3 Administration with Respect to Insiders. With respect to participation by Insiders in the Plan, at any time that any class of equity security of the Company is registered pursuant to Section 12 of the Exchange Act, the Plan shall be administered in compliance with the requirements, if any, of Rule 16b-3.

3.4 Powers of the Committee. In addition to any other powers set forth in the Plan and subject to the provisions of the Plan, the Committee shall have the full and final power and authority, in its discretion:

(a) to determine the persons to whom, and the time or times at which, Awards shall be granted and the number of shares of Stock to be subject to each Award;

(b) to determine the type of Award granted;

(c) to determine the Fair Market Value of shares of Stock or other property;

(d) to determine the terms, conditions and restrictions applicable to each Award (which need not be identical) and any shares acquired pursuant thereto, including, without limitation, (i) the exercise or purchase price of shares pursuant to any Award, (ii) the method of payment for shares purchased pursuant to any Award, (iii) the method for satisfaction of any tax withholding obligation arising in connection with any Award, including by the withholding or delivery of shares of Stock, (iv) the timing, terms and conditions of the exercisability or vesting of any Award or any shares acquired pursuant thereto, (v) the time of the expiration of any Award, (vi) the effect of the Participant's termination of Service on any of the foregoing, and (vii) all other terms, conditions and restrictions applicable to any Award or shares acquired pursuant thereto not inconsistent with the terms of the Plan;

(e) to determine whether an Award will be settled in shares of Stock, cash, other property or in any combination thereof;

(f) to approve one or more forms of Award Agreement;

(g) to amend, modify, extend, cancel or renew any Award or to waive any restrictions or conditions applicable to any Award or any shares acquired pursuant thereto;

(h) to accelerate, continue, extend or defer the exercisability or vesting of any Award or any shares acquired pursuant thereto, including with respect to the period following a Participant's termination of Service;

(i) to prescribe, amend or rescind rules, guidelines and policies relating to the Plan, or to adopt sub-plans or supplements to, or alternative versions of, the Plan, including, without limitation, as the Committee deems necessary or desirable to comply with the laws or regulations of or to accommodate the tax policy, accounting principles or custom of, foreign jurisdictions whose citizens may be granted Awards; and

(j) to correct any defect, supply any omission or reconcile any inconsistency in the Plan or any Award Agreement and to make all other determinations and take such other actions with respect to the Plan or any Award as the Committee may deem advisable to the extent not inconsistent with the provisions of the Plan or applicable law.

3.5 Option. The Committee shall have the authority to reduce the exercise price of any Option, provided that any action taken pursuant to this Section 3.5 with respect to an Option shall be taken only to the extent that such action

would not violate Section 409A of the Code or prevent the Plan or the Option from qualifying for an exemption under Section 409A of the Code.

3.6 Indemnification. In addition to such other rights of indemnification as they may have as members of the Board or the Committee or as officers or employees of the Participating Company Group, members of the

Board or the Committee and any officers or employees of the Participating Company Group to whom authority to act for the Board, the Committee or the Company is delegated shall be indemnified by the Company against all reasonable expenses, including attorneys' fees, actually and necessarily incurred in connection with the defense of any action, suit or proceeding, or in connection with any appeal therein, to which they or any of them may be a party by reason of any action taken or failure to act under or in connection with the Plan, or any right granted hereunder, and against all amounts paid by them in settlement thereof (provided such settlement is approved by independent legal counsel selected by the Company) or paid by them in satisfaction of a judgment in any such action, suit or proceeding, except in relation to matters as to which it shall be adjudged in such action, suit or proceeding that such person is liable for gross negligence, bad faith or intentional misconduct in duties; provided, however, that within sixty (60) days after the institution of such action, suit or proceeding, such person shall offer to the Company, in writing, the opportunity at its own expense to handle and defend the same.

4. SHARES SUBJECT TO PLAN.

4.1 Maximum Number of Shares Issuable. Subject to adjustment as provided in Sections 4.1, 4.2 and 4.3, the maximum number of shares of Stock that may be issued under the Plan shall be equal to nine million seven hundred thousand (9,700,000) shares and shall consist of authorized but unissued or shares of previously issued Stock that have reacquired by the Company or any combination thereof.

4.2 Share Counting. If an Option or Restricted Stock Award is terminated, expires or becomes unexercisable, in whole or in part, for any reason, the unissued or unpurchased shares of Common Stock which were subject thereto shall become available for future grant under the Plan. Shares of Common Stock that have been actually issued under the Plan shall not be returned to the share reserve for future grants under the Plan, except that shares of Common Stock issued pursuant to a Restricted Stock Award which are repurchased by the Company shall be returned to the share reserve for future grant under the Plan.

4.3 Adjustments for Changes in Capital Structure. Subject to any required action by the stockholders of the Company and the requirements of Sections 409A and 424 of the Code to the extent applicable, in the event of any change in the Stock effected without receipt of consideration by the Company, whether through merger, consolidation, reorganization, reincorporation, recapitalization, reclassification, stock dividend, stock split, reverse stock split, split-up, split-off, spin-off, combination of shares, exchange of shares, or similar change in the capital structure of the Company, or in the event of payment of a dividend or distribution to the stockholders of the Company in a form other than Stock (excepting regular, periodic cash dividends) that has a material effect on the Fair Market Value of shares of Stock, appropriate and proportionate adjustments shall be made in the number and kind of shares subject to the Plan and to any outstanding Awards, in the Award limits set forth in Section 5.3 and in the exercise or purchase price per share under any outstanding Award in order to prevent dilution or enlargement of Participants' rights under the Plan. For purposes of the foregoing, conversion of any convertible securities of the Company shall not be treated as "effected without receipt of consideration by the Company." If a majority of the shares which are of the same class as the shares that are subject to outstanding Awards are exchanged for, converted into, or otherwise become (whether or not pursuant to an Ownership Change Event) shares of another corporation (the "*New Shares*"), the Committee may unilaterally amend the outstanding Awards to provide that such Awards are for New Shares. In the event of any such amendment, the number of shares subject to, and the exercise or purchase price per share of, the outstanding Awards shall be adjusted in a fair and equitable manner as determined by the Committee, in its discretion. Any fractional share resulting from an adjustment pursuant to this Section shall be rounded down to the nearest whole number, and in no event may the exercise or purchase price under any Award be decreased to an amount less than the par value, if any, of the stock subject to such Award. The Committee in its discretion, may also make such adjustments in the terms of any Award to reflect, or related to, such changes in the capital structure of the Company or distributions as it deems appropriate. The adjustments determined by the Committee pursuant to this Section shall be final, binding and conclusive.

4.4 Assumption or Substitution of Awards. The Committee may, without affecting the number of shares of Stock reserved or available hereunder, authorize the issuance or assumption of benefits under this Plan in connection with any merger, consolidation, acquisition of property or stock, or reorganization upon such terms and conditions as it may deem appropriate, subject to compliance with Section 409A of the Code and any other applicable provisions of the Code.

5. ELIGIBILITY, PARTICIPATION AND AWARD LIMITATIONS

5.1 Persons Eligible for Awards. Nonstatutory Stock Options and Restricted Stock Awards may be granted only to Employees, Consultants and Directors. An Incentive Stock Option may be granted only to a person who, on the effective date of grant, is an Employee of the Company, a Parent Corporation or a Subsidiary Corporation (each being an "***ISO-Qualifying Corporation***"). Any person who is not an Employee of an ISO-Qualifying Corporation on the effective date of the grant of an Option to such person may be granted only a Nonstatutory Stock Option.

5.2 Participation in the Plan. Awards are granted solely at the discretion of the Committee. Eligible persons may be granted more than one Award. However, eligibility in accordance with this Section shall not entitle any person to be granted an Award, or, having been granted an Award, to be granted an additional Award. Subject to the adjustments set forth in Section 4, no Employee shall during any calendar year be granted Options or Restricted Stock Awards for more than shares of Stock.

5.3 Incentive Stock Option Limitations.

(a) ***Maximum Number of Shares Issuable Pursuant to Incentive Stock Options.*** Subject to adjustment as provided in Section 4.3, the maximum aggregate number of shares of Stock that may be issued under the Plan pursuant to the exercise of Incentive Stock Options shall not exceed nine million seven hundred thousand (9,700,000) shares. The maximum aggregate number of shares of Stock that may be issued under the Plan pursuant to all Awards other than Incentive Stock Options shall be the number of shares determined in accordance with Section 4.

(b) ***Fair Market Value Limitation.*** To the extent that options designated as Incentive Stock Options (granted under all stock option plans of the Participating Company Group, including the Plan) become exercisable by a Participant for the first time during any calendar year for stock having a Fair Market Value greater than One Hundred Thousand Dollars (\$100,000), the portion of such options which exceeds such amount shall be treated as Nonstatutory Stock Options. For purposes of this Section, options designated as Incentive Stock Options shall be taken into account in the order in which they were granted, and the Fair Market Value of stock shall be determined as of the time the option with respect to such stock is granted. If the Code is amended to provide for a limitation different from that set forth in this Section, such different limitation shall be deemed incorporated herein effective as of the date and with respect to such Options as required or permitted by such amendment to the Code. If an Option is treated as an Incentive Stock Option in part and as a Nonstatutory Stock Option in part by reason of the limitation set forth in this Section, the Participant may designate which portion of such Option the Participant is exercising. In the absence of such designation, the Participant shall be deemed to have exercised the Incentive Stock Option portion of the Option first. Upon exercise, shares issued pursuant to each such portion shall be separately identified.

5.4 Limitation on Individual Awards. Following the effective date of this Section as provided below and subject to adjustment in accordance with Section 4.3, no employee shall during any calendar year be granted Options or Restricted Stock Awards for more than eight hundred thousand (800,000) shares of Stock. The limitation of this Section 5.3 shall apply following the date on which the Company has a class of equity securities registered under Section 12 of the Securities Act and upon the earlier of (i) a material modification of the Plan; (ii) the first meeting of shareholders at which directors are elected and which occurs after the close of the third (3rd) calendar year following the calendar year during which occurs the first registration of the Corporation's equity securities under Section 12 of the Securities Act; or (iii) such date as is required to comply with Section 162(m) of the Code and regulations thereunder.

6. STOCK OPTIONS

Options shall be evidenced by Award Agreements specifying the number of shares of Stock covered thereby, in such form as the Committee shall from time to time establish. Award Agreements evidencing Options may incorporate all or any of the terms of the Plan by reference and shall comply with and be subject to the following terms and conditions:

6.1 Exercise Price. The exercise price for each Option shall be established in the discretion of the Committee; provided, however, that (a) the exercise price per share shall be not less than the Fair Market Value of a share of Stock on the effective date of grant of the Option and (b) no Incentive Stock Option granted to a Ten Percent Owner shall have an exercise price per share less than one hundred ten percent (110%) of the Fair Market Value of a share of Stock on the effective date of grant of the Option. Notwithstanding the foregoing, an Option (whether an Incentive Stock Option or a Nonstatutory Stock Option) may be granted with an exercise price lower than the minimum exercise price set forth above if such Option is granted pursuant to an assumption or substitution for another option in a manner that would qualify under the provisions of Section 409A or 424(a) of the Code.

6.2 Exercisability and Term of Options. Options shall be exercisable at such time or times, or upon such event or events, and subject to such terms, conditions, performance criteria and restrictions as shall be determined by the Committee and set forth in the Award Agreement evidencing such Option; provided, however, that (a) no Option shall be exercisable after the expiration of ten (10) years after the effective date of grant of such Option, (b) no Incentive Stock Option granted to a Ten Percent Owner shall be exercisable after the expiration of five (5) years after the effective date of grant of such Option and (c) no Option granted to an Employee who is a non-exempt employee for purposes of the Fair Labor Standards Act of 1938, as amended, shall be first exercisable until at least six (6) months following the date of grant of such Option (except in the event of such Employee's death, disability or retirement, upon a Change in Control, or as otherwise permitted by the Worker Economic Opportunity Act). Subject to the foregoing, unless otherwise specified by the Committee in the grant of an Option, each Option shall terminate ten (10) years after the effective date of grant of the Option, unless earlier terminated in accordance with its provisions.

6.3 Payment of Exercise Price.

(a) **Forms of Consideration Authorized.** Except as otherwise provided below, payment of the exercise price for the number of shares of Stock being purchased pursuant to any Option shall be made (i) in cash, by check or in cash equivalent; (ii) if permitted by the Committee and subject to the limitations contained in Section 6.3(b), by means of (1) a Cashless Exercise, (2) a Stock Tender Exercise or (3) a Net Exercise; (iii) by such other consideration as may be approved by the Committee from time to time to the extent permitted by applicable law, or (iv) by any combination thereof. The Committee may at any time or from time to time grant Options which do not permit all of the foregoing forms of consideration to be used in payment of the exercise price or which otherwise restrict one or more forms of consideration.

(b) Limitations on Forms of Consideration.

(i) **Cashless Exercise.** A "*Cashless Exercise*" means the delivery of a properly executed notice of exercise together with irrevocable instructions to a broker providing for the assignment to the Company of the proceeds of a sale or loan with respect to some or all of the shares being acquired upon the exercise of the Option (including, without limitation, through an exercise complying with the provisions of Regulation T as promulgated from time to time by the Board of Governors of the Federal Reserve System). The Company reserves, at any and all times, the right, in the Company's sole and absolute discretion, to establish, decline to approve or terminate any program or procedures for the exercise of Options by means of a Cashless Exercise, including with respect to one or more Participants specified by the Company notwithstanding that such program or procedures may be available to other Participants.

(ii) **Stock Tender Exercise.** A "*Stock Tender Exercise*" means the delivery of a properly executed exercise notice accompanied by a Participant's tender to the Company, or attestation to the ownership, in a form acceptable to the Company of whole shares of Stock owned by the Participant having a Fair Market Value that does not exceed the aggregate exercise price for the shares with respect to which the Option is exercised. A Stock Tender Exercise shall not be permitted if it would constitute a violation of the provisions of any law, regulation or agreement restricting the redemption of the Company's stock. If required by the Company, an Option may not be exercised by tender to the Company, or attestation to the ownership, of shares of Stock unless such shares either have been owned by the Participant for a period of time required by the Company (and not used for another option exercise by attestation during such period) or were not acquired, directly or indirectly, from the Company.

(iii) **Net Exercise.** A "*Net Exercise*" means the delivery of a properly executed exercise notice followed by a procedure pursuant to which (1) the Company will reduce the number of shares otherwise issuable to a Participant upon the exercise of an Option by the largest whole number of shares having a Fair Market Value that does not

exceed the aggregate exercise price for the shares with respect to which the Option is exercised, and (2) the Participant shall pay to the Company in cash the remaining balance of such aggregate exercise price not satisfied by such reduction in the number of whole shares to be issued.

6.4 Effect of Termination of Service.

(a) **Option Exercisability.** Subject to earlier termination of the Option as otherwise provided herein and unless otherwise provided by the Committee, an Option shall terminate immediately upon the Participant's termination of Service to the extent that it is then unvested and shall be exercisable after the Participant's termination of Service to the extent it is then vested only during the applicable time period determined in accordance with this Section and thereafter shall terminate.

(i) **Disability.** If the Participant's Service terminates because of the Disability of the Participant, the Option, to the extent unexercised and exercisable for vested shares on the date on which the Participant's Service terminated, may be exercised by the Participant (or the Participant's guardian or legal representative) at any time prior to the expiration of six (6) months after the date on which the Participant's Service terminated, but in any event no later than the date of expiration of the Option's terms set forth in the Award Agreement evidencing such Option (the "**Option Expiration Date**").

(ii) **Death.** If the Participant's Service terminates because of the death of the Participant, the Option, to the extent unexercised and exercisable for vested shares on the date on which the Participant's Service terminated, may be exercised by the Participant's legal representative or other person who acquired the right to exercise the Option by reason of the Participant's death at any time prior to the expiration of six (6) months after the date on which the Participant's Service terminated, but in any event no later than the Option Expiration Date. The Participant's Service shall be deemed to have terminated on account of death if the Participant dies within three (3) months after the Participant's termination of Service.

(iii) **Termination for Cause.** Notwithstanding any other provision of the Plan to the contrary, if the Participant's Service is terminated for Cause or if, following the Participant's termination of Service and during any period in which the Option otherwise would remain exercisable, the Participant engages in any act that would constitute Cause, the Option shall terminate in its entirety and cease to be exercisable immediately upon such termination of Service or act.

(iv) **Other Termination of Service.** If the Participant's Service terminates for any reason, except Disability, death or Cause, the Option, to the extent unexercised and exercisable for vested shares on the date on which the Participant's Service terminated, may be exercised by the Participant at any time prior to the expiration of three (3) months after the date on which the Participant's Service terminated, but in any event no later than the Option Expiration Date.

(b) **Extension if Exercise Prevented by Law.** Notwithstanding the foregoing, other than termination of Service for Cause, if the exercise of an Option within the applicable time periods set forth in Section 6.4(a) is prevented by the provisions of Section 10 below, the Option shall remain exercisable until the later of (i) thirty (30) days after the date such exercise first would no longer be prevented by such provisions or (ii) the end of the applicable time period under Section 6.4(a), but in any event no later than the Option Expiration Date.

6.5 Transferability of Options. During the lifetime of the Participant, an Option shall be exercisable only by the Participant or the Participant's guardian or legal representative. An Option shall not be subject in any manner to anticipation, alienation, sale, exchange, transfer, assignment, pledge, encumbrance, or garnishment by creditors of the Participant or the Participant's beneficiary, except transfer by will or by the laws of descent and distribution. Notwithstanding the foregoing, to the extent permitted by the Committee, in its discretion, and set forth in the Award Agreement evidencing such Option, an Option shall be assignable or transferable subject to the applicable limitations, if any, described in the General Instructions to Form S-8 under the Securities Act or, in the case of an Incentive Stock Option, only as permitted by applicable regulations under Section 421 of the Code in a manner that does not disqualify such Option as an Incentive Stock Option.

7. RESTRICTED STOCK AWARDS

Restricted Stock Awards shall be evidenced by Award Agreements specifying the number of shares of Stock subject to the Award in such form as the Committee shall from time to time establish. Award Agreements evidencing Restricted Stock Awards may incorporate all or any of the terms of the Plan by reference and shall comply with and be subject to the following terms and conditions:

7.1 Types of Restricted Stock Awards Authorized. Restricted Stock Awards may be granted upon such conditions as the Committee shall determine, including, without limitation.

7.2 Vesting and Restrictions on Transfer. Shares issued pursuant to any Restricted Stock Award may (but need not) be made subject to Vesting Conditions based upon the satisfaction of such Service requirements, conditions, restrictions or performance criteria, as shall be established by the Committee and set forth in the Award Agreement evidencing such Award. During any period in which shares acquired pursuant to a Restricted Stock Award remain subject to Vesting Conditions, such shares may not be sold, exchanged, transferred, pledged, assigned or otherwise disposed of other than pursuant to an Ownership Change Event or as provided in Section 4.

7.3 Voting Rights; Dividends and Distributions. Except as provided in this Section, or any Award Agreement, during any period in which shares acquired pursuant to a Restricted Stock Award remain subject to Vesting Conditions, the Participant shall have all of the rights of a stockholder of the Company holding shares of Stock, including the right to vote such shares and to receive all dividends and other distributions paid with respect to such shares; provided, however, that if so determined by the Committee and provided by the Award Agreement, such dividends and distributions shall be subject to the same Vesting Conditions as the shares subject to the Restricted Stock Award with respect to which such dividends or distributions were paid, and otherwise shall be paid no later than the end of the calendar year in which such dividends or distributions are paid to stockholders (or, if later, the 15th day of the third month following the date such dividends or distributions are paid to stockholders). In the event of a dividend or distribution paid in shares of Stock or other property or any other adjustment made upon a change in the capital structure of the Company as described in Section 4.3, any and all new, substituted or additional securities or other property (other than regular, periodic cash dividends) to which the Participant is entitled by reason of the Participant's Restricted Stock Award shall be immediately subject to the same Vesting Conditions as the shares subject to the Restricted Stock Award with respect to which such dividends or distributions were paid or adjustments were made.

7.4 Effect of Termination of Service. Unless otherwise provided by the Committee in the Award Agreement evidencing a Restricted Stock Award if a Participant's Service terminates for any reason, whether voluntary or involuntary (including the Participant's death or Disability), then the Participant shall forfeit to the Company any shares acquired by the Participant pursuant to a Restricted Stock Award which remain subject to Vesting Conditions as of the date of the Participant's termination of Service.

7.5 Nontransferability of Restricted Stock Award Rights. Rights to acquire shares of Stock pursuant to a Restricted Stock Award shall not be subject in any manner to anticipation, alienation, sale, exchange, transfer, assignment, pledge, encumbrance or garnishment by creditors of the Participant or the Participant's beneficiary, except transfer by will or the laws of descent and distribution. All rights with respect to a Restricted Stock Award granted to a Participant hereunder shall be exercisable during his or her lifetime only by such Participant or the Participant's guardian or legal representative.

8. STANDARD FORMS OF AWARD AGREEMENT.

8.1 Award Agreements. Each Award shall comply with and be subject to the terms and conditions set forth in the appropriate form of Award Agreement approved by the Committee and as amended from time to time. No Award or purported Award shall be a valid and binding obligation of the Company unless evidenced by a fully executed Award Agreement, which execution may be evidenced by electronic means. Any Award Agreement may consist of an appropriate form of Notice of Grant and a form of Agreement incorporated therein by reference, or such other form or forms, including electronic media, as the Committee may approve from time to time.

8.2 Authority to Vary Terms. The Committee shall have the authority from time to time to vary the terms of any standard form of Award Agreement either in connection with the grant or amendment of an individual Award or in connection with the authorization of a new standard form or forms; provided, however, that the terms and conditions

of any such new, revised or amended standard form or forms of Award Agreement are not inconsistent with the terms of the Plan.

9. CHANGE IN CONTROL.

9.1 Effect of Change in Control on Awards. Subject to the requirements and limitations of Section 409A of the Code, if applicable, the Committee may provide for any one or more of the following:

(a) ***Accelerated Vesting.*** In its discretion, the Committee may provide in the grant of any Award or at any other time may take such action as it deems appropriate to provide for acceleration of the exercisability or vesting in connection with a Change in Control of each or any outstanding Award or portion thereof and shares acquired pursuant thereto upon such conditions, including termination of the Participant's Service prior to, upon, or following such Change in Control, and to such extent as the Committee shall determine.

(b) ***Assumption, Continuation or Substitution.*** In the event of a Change in Control, the surviving, continuing, successor, or purchasing corporation or other business entity or parent thereof, as the case may be (the "***Acquiror***"), may, without the consent of any Participant, either assume or continue the Company's rights and obligations under each or any Award or portion thereof outstanding immediately prior to the Change in Control or substitute for each or any such outstanding Award or portion thereof a substantially equivalent award with respect to the Acquiror's stock, as applicable. For purposes of this Section, if so determined by the Committee in its discretion, an Award shall be deemed assumed if, following the Change in Control, the Award confers the right to receive, subject to the terms and conditions of the Plan and the applicable Award Agreement, for each share of Stock subject to the Award immediately prior to the Change in Control, the consideration (whether stock, cash, other securities or property or a combination thereof) to which a holder of a share of Stock on the effective date of the Change in Control was entitled (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding shares of Stock); provided, however, that if such consideration is not solely common stock of the Acquiror, the Committee may, with the consent of the Acquiror, provide for the consideration to be received upon the exercise or vesting of the Award, for each share of Stock subject to the Award, to consist solely of common stock of the Acquiror equal in Fair Market Value to the per share consideration received by holders of Stock pursuant to the Change in Control. Any Award or portion thereof which is neither assumed or continued by the Acquiror in connection with the Change in Control nor exercised or settled as of the time of consummation of the Change in Control shall terminate and cease to be outstanding effective as of the time of consummation of the Change in Control.

(c) ***Cash-Out of Outstanding Stock-Based Awards.*** The Committee may, in its discretion and without the consent of any Participant, determine that, upon the occurrence of a Change in Control, each or any Award denominated in shares of Stock or portion thereof outstanding immediately prior to the Change in Control and not previously exercised, as applicable, or shall be canceled in exchange for a payment with respect to each vested share (and each unvested share, if so determined by the Committee) of Stock subject to such canceled Award in (i) cash, (ii) stock of the Company or of a corporation or other business entity a party to the Change in Control, or (iii) other property which, in any such case, shall be in an amount having a Fair Market Value equal to the Fair Market Value of the consideration to be paid per share of Stock in the Change in Control, reduced (but not below zero) by the exercise or purchase price per share, if any, under such Award. In the event such determination is made by the Committee, an Award having an exercise or purchase price per share equal to or greater than the Fair Market Value of the consideration to be paid per share of Stock in the Change in Control may be canceled without payment of consideration to the holder thereof. Payment pursuant to this Section (reduced by applicable withholding taxes, if any) shall be made to Participants in respect of the vested portions of their canceled Awards as soon as practicable following the date of the Change in Control and in respect of the unvested portions of their canceled Awards in accordance with the vesting schedules applicable to such Awards.

9.2 Federal Excise Tax Under Section 4999 of the Code.

(a) ***Excess Parachute Payment.*** In the event that any acceleration of vesting pursuant to an Award and any other payment or benefit received or to be received by a Participant would subject the Participant to any excise tax pursuant to Section 4999 of the Code due to the characterization of such acceleration of vesting, payment or benefit as an "excess parachute payment" under Section 280G of the Code, the Participant may elect to reduce the amount of any acceleration of vesting called for under the Award in order to avoid such characterization.

(b) **Determination by Independent Accountants.** To aid the Participant in making any election called for under Section 9.2(a) no later than the date of the occurrence of any event that might reasonably be anticipated to result in an "excess parachute payment" to the Participant as described in Section 9.2(a), the Company shall request a determination in writing by independent public accountants selected by the Company (the "**Accountants**"). As soon as practicable thereafter, the Accountants shall determine and report to the Company and the Participant the amount of such acceleration of vesting, payments and benefits which would produce the greatest after-tax benefit to the Participant. For the purposes of such determination, the Accountants may rely on reasonable, good faith interpretations concerning the application of Sections 280G and 4999 of the Code. The Company and the Participant shall furnish to the Accountants such information and documents as the Accountants may reasonably request in order to make their required determination. The Company shall bear all fees and expenses the Accountants charge in connection with their services contemplated by this Section.

10. COMPLIANCE WITH SECURITIES LAW.

The grant of Awards and the issuance of shares of Stock pursuant to any Award shall be subject to compliance with all applicable requirements of federal, state and foreign law with respect to such securities and the requirements of any stock exchange or market system upon which the Stock may then be listed. In addition, no Award may be exercised or shares issued pursuant to an Award unless (a) a registration statement under the Securities Act shall at the time of such exercise or issuance be in effect with respect to the shares issuable pursuant to the Award, or (b) in the opinion of legal counsel to the Company, the shares issuable pursuant to the Award may be issued in accordance with the terms of an applicable exemption from the registration requirements of the Securities Act. The inability of the Company to obtain from any regulatory body having jurisdiction the authority, if any, deemed by the Company's legal counsel to be necessary to the lawful issuance and sale of any shares hereunder shall relieve the Company of any liability in respect of the failure to issue or sell such shares as to which such requisite authority shall not have been obtained. As a condition to issuance of any Stock, the Company may require the Participant to satisfy any qualifications that may be necessary or appropriate, to evidence compliance with any applicable law or regulation and to make any representation or warranty with respect thereto as may be requested by the Company.

11. COMPLIANCE WITH SECTION 409A OF THE CODE.

No Option or Restricted Stock Award granted pursuant to this Plan is intended to constitute "deferred compensation" as defined in Code Section 409A, and the Plan and the terms of all Options and Restricted Stock Awards shall be interpreted accordingly. If any provision of the Plan, an Option or a Restricted Stock Award contravenes any regulations or Treasury guidance issued under Code Section 409A, such provision shall be modified to maintain, to the maximum extent practicable, the original intent of the applicable provision without triggering the penalties and interest under Code Section 409A.

12. TAX WITHHOLDING.

12.1 Tax Withholding in General. The Company shall have the right to deduct from any and all payments made under the Plan, or to require the Participant, through payroll withholding, cash payment or otherwise, to make adequate provision for, the federal, state, local and foreign taxes (including social insurance), if any, required by law to be withheld by any Participating Company with respect to an Award or the shares acquired pursuant thereto. The Company shall have no obligation to deliver shares of Stock, to release shares of Stock from an escrow established pursuant to an Award Agreement, or to make any payment in cash under the Plan until the Participating Company Group's tax withholding obligations have been satisfied by the Participant.

12.2 Withholding in or Directed Sale of Shares. The Company shall have the right, but not the obligation, to deduct from the shares of Stock issuable to a Participant upon the exercise or settlement of an Award, or to accept from the Participant the tender of, a number of whole shares of Stock having a Fair Market Value, as determined by the Company, equal to all or any part of the tax withholding obligations of any Participating Company. The Fair Market Value of any shares of Stock withheld or tendered to satisfy any such tax withholding obligations shall not exceed the amount determined by the applicable minimum statutory withholding rates. The Company may require a Participant to direct a broker, upon the vesting, exercise or settlement of an Award, to sell a portion of the shares subject to the Award determined by the Company in its discretion to be sufficient to cover the tax withholding obligations of any Participating Company and to remit an amount equal to such tax withholding obligations to the Company in cash.

13. AMENDMENT, SUSPENSION OR TERMINATION OF PLAN.

The Committee may amend, suspend or terminate the Plan at any time. However, without the approval of the Company's stockholders, there shall be (a) no increase in the maximum aggregate number of shares of Stock that may be issued under the Plan (except by operation of the provisions of Section 4.3), (b) no change in the class of persons eligible to receive Incentive Stock Options, and (c) no other amendment of the Plan that would require approval of the Company's stockholders under any applicable law, regulation or rule, including the rules of any stock exchange or quotation system upon which the Stock may then be listed or quoted. No amendment, suspension or termination of the Plan shall affect any then outstanding Award unless expressly provided by the Committee. Except as provided by the next sentence, no amendment, suspension or termination of the Plan may adversely affect any then outstanding Award without the consent of the Participant. Notwithstanding any other provision of the Plan to the contrary, the Committee may, in its sole and absolute discretion and without the consent of any Participant, amend the Plan or any Award Agreement, to take effect retroactively or otherwise, as it deems necessary or advisable for the purpose of conforming the Plan or such Award Agreement to any present or future law, regulation or rule applicable to the Plan, including, but not limited to, Section 409A of the Code.

14. MISCELLANEOUS PROVISIONS.

14.1 Repurchase Rights. Shares issued under the Plan may be subject to one or more repurchase options, or other conditions and restrictions as determined by the Committee in its discretion at the time the Award is granted. The Company shall have the right to assign at any time any repurchase right it may have, whether or not such right is then exercisable, to one or more persons as may be selected by the Company. Upon request by the Company, each Participant shall execute any agreement evidencing such transfer restrictions prior to the receipt of shares of Stock hereunder and shall promptly present to the Company any and all certificates representing shares of Stock acquired hereunder for the placement on such certificates of appropriate legends evidencing any such transfer restrictions.

14.2 Forfeiture Events.

(a) The Committee may specify in an Award Agreement that the Participant's rights, payments, and benefits with respect to an Award shall be subject to reduction, cancellation, forfeiture, or recoupment upon the occurrence of specified events, in addition to any otherwise applicable vesting or performance conditions of an Award. Such events may include, but shall not be limited to, termination of Service for Cause or any act by a Participant, whether before or after termination of Service, that would constitute Cause for termination of Service.

(b) If the Company is required to prepare an accounting restatement due to the material noncompliance of the Company, as a result of misconduct, with any financial reporting requirement under the securities laws, any Participant who knowingly or through gross negligence engaged in the misconduct, or who knowingly or through gross negligence failed to prevent the misconduct, and any Participant who is one of the individuals subject to automatic forfeiture under Section 304 of the Sarbanes-Oxley Act of 2002, shall reimburse the Company for (i) the amount of any payment in settlement of an Award received by such Participant during the twelve- (12-) month period following the first public issuance or filing with the United States Securities and Exchange Commission (whichever first occurred) of the financial document embodying such financial reporting requirement, and (ii) any profits realized by such Participant from the sale of securities of the Company during such twelve- (12-) month period.

14.3 Provision of Information. Each Participant shall be given access to information concerning the Company equivalent to that information generally made available to the Company's common stockholders.

14.4 Rights as Employee, Consultant or Director. No person, even though eligible pursuant to Section 5, shall have a right to be selected as a Participant, or, having been so selected, to be selected again as a Participant. Nothing in the Plan or any Award granted under the Plan shall confer on any Participant a right to remain an Employee, Consultant or Director or interfere with or limit in any way any right of a Participating Company to terminate the Participant's Service at any time. To the extent that an Employee of a Participating Company other than the Company receives an Award under the Plan, that Award shall in no event be understood or interpreted to mean that the Company is the Employee's employer or that the Employee has an employment relationship with the Company.

14.5 Rights as a Stockholder. A Participant shall have no rights as a stockholder with respect to any shares covered by an Award until the date of the issuance of such shares (as evidenced by the appropriate entry on the books of the

Company or of a duly authorized transfer agent of the Company). No adjustment shall be made for dividends, distributions or other rights for which the record date is prior to the date such shares are issued, except as provided in Section 4 or another provision of the Plan.

14.6 Delivery of Title to Shares. Subject to any governing rules or regulations, the Company shall issue or cause to be issued the shares of Stock acquired pursuant to an Award and shall deliver such shares to or for the benefit of the Participant by means of one or more of the following: (a) by delivering to the Participant evidence of book entry shares of Stock credited to the account of the Participant, (b) by depositing such shares of Stock for the benefit of the Participant with any broker with which the Participant has an account relationship, or (c) by delivering such shares of Stock to the Participant in certificate form.

14.7 Fractional Shares. The Company shall not be required to issue fractional shares upon the exercise or settlement of any Award.

14.8 Retirement and Welfare Plans. Neither Awards made under this Plan nor shares of Stock or cash paid pursuant to such Awards may be included as "compensation" for purposes of computing the benefits payable to any Participant under any Participating Company's retirement plans (both qualified and non-qualified) or welfare benefit plans unless such other plan expressly provides that such compensation shall be taken into account in computing a Participant's benefit.

14.9 Beneficiary Designation. Subject to local laws and procedures, each Participant may file with the Company a written designation of a beneficiary who is to receive any benefit under the Plan to which the Participant is entitled in the event of such Participant's death before he or she receives any or all of such benefit. Each designation will revoke all prior designations by the same Participant, shall be in a form prescribed by the Company, and will be effective only when filed by the Participant in writing with the Company during the Participant's lifetime. If a married Participant designates a beneficiary other than the Participant's spouse, the effectiveness of such designation may be subject to the consent of the Participant's spouse. If a Participant dies without an effective designation of a beneficiary who is living at the time of the Participant's death, the Company will pay any remaining unpaid benefits to the Participant's legal representative.

14.10 Severability. If any one or more of the provisions (or any part thereof) of this Plan shall be held invalid, illegal or unenforceable in any respect, such provision shall be modified so as to make it valid, legal and enforceable, and the validity, legality and enforceability of the remaining provisions (or any part thereof) of the Plan shall not in any way be affected or impaired thereby.

14.11 No Constraint on Corporate Action. Nothing in this Plan shall be construed to: (a) limit, impair, or otherwise affect the Company's or another Participating Company's right or power to make adjustments, reclassifications, reorganizations, or changes of its capital or business structure, or to merge or consolidate, or dissolve, liquidate, sell, or transfer all or any part of its business or assets; or (b) limit the right or power of the Company or another Participating Company to take any action which such entity deems to be necessary or appropriate.

14.12 Unfunded Obligation. Participants shall have the status of general unsecured creditors of the Company. Any amounts payable to Participants pursuant to the Plan shall be considered unfunded and unsecured obligations for all purposes, including, without limitation, Title I of the Employee Retirement Income Security Act of 1974. No Participating Company shall be required to segregate any monies from its general funds, or to create any trusts, or establish any special accounts with respect to such obligations. The Company shall retain at all times beneficial ownership of any investments, including trust investments, which the Company may make to fulfill its payment obligations hereunder. Any investments or the creation or maintenance of any trust or any Participant account shall not create or constitute a trust or fiduciary relationship between the Committee or any Participating Company and a Participant, or otherwise create any vested or beneficial interest in any Participant or the Participant's creditors in any assets of any Participating Company. The Participants shall have no claim against any Participating Company for any changes in the value of any assets which may be invested or reinvested by the Company with respect to the Plan.

14.13 Choice of Law. Except to the extent governed by applicable federal law, the validity, interpretation, construction and performance of the Plan and each Award Agreement shall be governed by the laws of the State of California, without regard to its conflict of law rules.

Paycheck Protection Program Promissory Note and Agreement

Wells Fargo SBA Lending

Borrower Names:

International SemCo Corporation

Important Notice: This Instrument Contains A Confession Of Judgment Provision Which Constitutes A Waiver Of Important Rights You May Have As A Debtor And Allows The Creditor To Obtain A Judgment Against You Without Any Further Notice. Venue Will Be In The City Of Richmond.

Paycheck Protection Program Promissory Note and Agreement

1. Parties To Agreement And Acceptance

This Wells Fargo Paycheck Protection Promissory Note and Agreement ("Agreement") governs the Wells Fargo Paycheck Protection Loan ("Loan") that Wells Fargo Bank, N.A. ("we" or "Lender") is providing to you (if a sole proprietor) or your business organization, Borrower(s) listed above, (such a sole proprietor or business organization are referred to in this Agreement as "Customer", "you", and "your" or "Borrower") and your designated representatives. The Loan is established under the terms and conditions of the SBA program of the United States Small Business Administration ("SBA") and the USA CARES Act (2020)(H.R. 748)(15 U.S.C 636 *et seq.*) (the "Act") and the availability of the Loan is expressly contingent on funds being available from the SBA under the Act to guaranty this Loan. You agree to be bound by and comply with each and every following term and condition of this Agreement. Lender agrees, based on the terms and conditions and relying upon the representations and warranties set forth in this Agreement, to make available to Borrower the Loan as more fully described herein.

2. Promise to Pay

Borrower promises to pay to Lender, or order, the principal amount of **\$653,695**, together with interest on the outstanding principal balance. Borrower will pay Lender at Lender's address shown in this Agreement or at such other place as Lender may designate in writing.

3. Interest

Interest will accrue on the outstanding principal balance at a fixed rate of 1.00%. Interest will be calculated as described in the Interest Accrual Basis paragraph below.

4. Interest Accrual Basis

Interest shall be computed on an actual/365 simple interest basis; that is, by multiplying the applicable interest rate, times the outstanding principal balance, times the actual number of days the principal is outstanding and dividing by a year of 365 days.

5. Repayment

Payments shall be due and payable monthly in the amount of **\$27,521.39** commencing **11/01/2020** and continuing on Day **03** of each month thereafter until maturity. The Loan shall mature two (2) years from the date of this Agreement **05/03/2022**, at which time all unpaid principal, accrued interest, and any other unpaid amounts shall be due and payable in full. Unless otherwise agreed, all sums received from Borrower may be applied to interest, fees, principal, or any other amounts due to Lender in any order at Lender's sole discretion.

As discussed further herein, the Borrower may apply for the loan to be forgiven in whole or in part.

If any portion of the principal and/or interest payments are forgiven by the Lender, upon forgiveness, the remaining balance of the loan will be reamortized over the remaining term with the entire principal balance remaining unpaid, along with all accrued and unpaid interest, due and payable upon the Maturity Date.

6. Permissible Use

The Account will be used only for purposes authorized by the Act, specifically the Paycheck Protection Program contained within such Act. In no event shall the Loan be used for any transaction that is illegal under any applicable law. You represent that you (if a sole proprietor) and your business organization are not a Money Service Business as defined by federal law, or have identified yourself to Lender as such a business and have complied with all applicable laws, rules and regulations governing such businesses.

7. Forgiveness

The Borrower will not be responsible for any loan payment if Borrower provides to Lender, in its sole and absolute discretion, sufficient documentation that (i) the Borrower used all of the loan proceeds for forgivable purposes described below and (ii) employee and compensation levels are maintained. The actual amount of loan forgiveness will depend, in part, on the total amount of payroll costs, payments of interest on mortgage obligations incurred before February 15, 2020, rent payments on leases dated before February 15, 2020, and utility payments under service agreements dated before February 15, 2020, over the eight-week period following the date of the loan. Not more than 25 percent of the loan forgiveness amount may be attributable to non-payroll costs. The following is an exhaustive list of forgivable purposes:

- 1) payroll costs (as defined in the Act and in 2.f.);
- 2) costs related to the continuation of group health care benefits during periods of paid sick, medical, or family leave, and insurance premiums;
- 3) mortgage interest payments (but not mortgage prepayments or principal payments);
- 4) rent payments;
- 5) utility payments;
- 6) interest payments on any other debt obligations that were incurred before February 15, 2020; and/or
- 7) refinancing an SBA EIDL loan made between January 31, 2020 and April 3, 2020.

8. Late Charges

For each payment of principal, interest, and/or fees which has not been paid in full within fifteen days after its date due, Borrower will pay to Lender a late charge of \$15.00 or five percent (5%) of the amount due, whichever is greater. Borrower acknowledges and agrees that the amount of this late fee is reasonable with respect to this Loan, taking into account Lender's expectation of timely receipt of payments with regard to the favorable pricing of this Loan, and the operational, administrative and regulatory burdens flowing from late payments and delinquencies. To the extent this late fee or any other fee or charge set forth in this Agreement may be prohibited or exceed any limit provided by any present or future applicable law, such fee or charge shall be reduced to the maximum amount allowed.

9. Prepayment

Borrower may prepay principal of the Loan at any time, in any amount, without penalty.

10. Default

The following constitute defaults under this Agreement:

- 1) a payment is not made when it is due;
- 2) the terms of this Agreement are breached in any way;
- 3) Customer defaults under the terms of any other obligation to Lender;
- 4) a bankruptcy petition is filed by or against Customer or any of Customer's owners;
- 5) a significant change occurs in the ownership or organizational structure of Customer or in the type or volume of such Customer's business or the death of a Customer;
- 6) Customer becomes insolvent or is dissolved, or Lender otherwise believes in good faith that the prospect of payment and/or performance under this Agreement;
- 7) payments to the Loan are returned or reversed for any reason;
- 8) Customer fails to submit required information the Lender deems necessary.

11. Remedies

In the event of any Default or failure to meet any condition under the preceding paragraphs, or upon any termination of a Loan, Lender may, at its option and without prior notification:

- 1) close any and all Loans to all use, as well as any other accounts for which the Customer is liable to Lender;
 - 2) accelerate payment of the full balance on any or all Loans as well as any or all other accounts for which the Customer is liable to Lender, and thereby require immediate payment of the full balance, including, without limitation any Late Charges or any other charges or fees of any kind due Lender.
 - 3) Lender may exercise its right of set-off against any obligation Lender owes to you, including a set-off to the extent permitted by law against any deposit account(s) you have with Lender.
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12. Borrower hereby certifies and represents that:

- 1) Borrower is eligible to receive a loan under the rules in effect at the time the loan is made that have been issued by the Small Business Administration (SBA) implementing the Paycheck Protection Program under Division A, Title I of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) (the Paycheck Protection Program Rule).
- 2) Borrower does not operate an ineligible business under the CARES Act and any implementing rules, 13 CFR 120.110 and described further in SBA's Standard Operating Procedure 50 10, Subpart B, Chapter 2. Borrower further certifies that Borrower is not engaged in any activity that is illegal under federal, state or local law.
- 3) Borrower (1) is an independent contractor, eligible self-employed individual, or sole proprietor or (2) employs no more than the greater of 500 or employees or, if applicable, the size standard in number of employees established by the SBA in 13 C.F.R. 121.201 for the Applicant's industry.
- 4) The Borrower or any owner of Borrower is not presently suspended, debarred, proposed for debarment, declared ineligible, voluntarily excluded from participation in this transaction by any Federal department or agency, or presently involved in any bankruptcy.
- 5) The Borrower, any owner of Borrower or any business owned or controlled by either of them, has not obtained a direct or guaranteed loan from SBA or any other Federal agency that is currently delinquent or has defaulted within the last seven (7) years and caused a loss to the government.
- 6) The Borrower (if an individual) or any individual owning 20% or more of the equity of the Borrower is not (a) subject to an indictment, criminal information, arraignment, or other means by which formal criminal charges are brought in any jurisdiction, (b) presently incarcerated, or (c) on probation or parole.
- 7) Within the last five (5) years, the Borrower (if an individual) or any individual owning 20% or more of the equity of the Borrower has not (a) been convicted of a felony; (b) pleaded guilty to a felony; (c) pleaded nolo contendere to a felony; (d) been placed on pretrial diversion for a felony; or (e) been placed on any form of parole or probation (including probation before judgment) for felony charges.
- 8) The Borrower is not a household employer (e.g. an individual who employs household employees such as nannies or housekeepers).
- 9) All documents submitted to Lender, including without limitation, payroll processor records, payroll tax filings, Form 1099-MISC, or bank records, are true and correct.
- 10) The United States is the principal place of residence for all employees of the Borrower included in the Borrower's payroll calculation submitted to Lender.
- 11) If the Borrower operates a franchise business, such franchise is listed on the SBA Franchise Directory.
- 12) Any loan received by the Borrower under Section 7(b)(2) of the Small Business Act between January 31, 2020 and April 3, 2020 was for a purpose other than paying payroll costs and other allowable uses loans under the Paycheck Protection Program Rule.
- 13) The Borrower was in operation on February 15, 2020 and had employees for whom it paid salaries and payroll taxes or paid independent contractors, as reported on Form(s) 1099-MISC.
- 14) Current economic uncertainty makes this Loan request necessary to support the ongoing operations of the Borrower.
- 15) The funds will be used to retain workers and maintain payroll or make mortgage interest payments, lease payments, and utility payments, as specified under the Paycheck Protection Program Rule; I understand that if the funds are knowingly used for unauthorized purposes, the federal government may hold me legally liable, such as for charges of fraud.
- 16) During the period beginning on February 15, 2020 and ending on December 31, 2020, the Borrower has not and will not receive another loan under the Paycheck Protection Program.
- 17) Borrower certifies that the information provided in the application and the information provided in all supporting documents and forms is true and accurate in all material respects. Borrower understands that knowingly making a false statement to obtain a guaranteed loan from SBA is punishable under the law, including under 18 USC 1001 and 3571 by imprisonment of not more than five years and/or a fine of up to \$250,000; under 15 USC 645 by imprisonment of not more than two years and/or a fine of not more than \$5,000; and, if submitted to a federally insured institution, under 18 USC 1014 by imprisonment of not more than thirty years and/or a fine of not more than \$1,000,000.
- 18) Borrower acknowledges that the lender will confirm the eligible loan amount using required documents submitted. Borrower understands, acknowledges and agrees that the Lender can share any tax information that it has provided with SBA's authorized representatives, including authorized representatives of the SBA Office of Inspector General, for the purpose of compliance with SBA Loan Program Requirements and all SBA reviews.
- 19) The undersigned officer of the Borrower is duly authorized to execute and deliver this Agreement, the Note and all other documents executed in connection therewith, and the performance by the Borrower of the transactions herein contemplated are and will be within its powers, have been duly authorized by all necessary entity action, and are not and will not be in contravention of any order of court or other agency of government, of law or, if applicable, its organizing or governing documents, or any indenture, agreement or undertaking to which it is a party or by which its property is bound, or be in conflict with, result in a breach of or constitute (with due notice and/or lapse of time) a default under any such indenture, agreement or undertaking or result in the imposition of any lien, charge or encumbrance of any nature on any of the properties of such Borrower.

13. Indemnification

Borrower agrees to indemnify Lender and hereby holds Lender harmless against any and all claims, actions, suits, proceedings, costs, expenses, brokerage or other fees, including reasonable attorneys' fees, losses, damages and liabilities of any kind, including in tort, penalties and interest, which Lender may incur in any manner other than Lender's own gross negligence or willful misconduct, by reason of any matter relating, directly or indirectly, to the Loan and the Loan Documents, including, but in no way limited to, without limitation, the calculation of the maximum Loan amount or the amount of the Loan that qualifies as eligible for forgiveness.

14. Attorney's fees and costs

Customer agrees to pay Lenders attorney's fees and costs: 1) related to this Agreement; or 2) related to enforcing this Agreement against customer or customer's owners (if applicable); or 3) related to collecting any amounts due under this Agreement from Customer or Customer's owners (if applicable).

15. Collateral Exclusions

No deed of trust, mortgage, security deed, or similar real estate collateral agreement ("Lien Document"), nor any personal property security agreement other than this Agreement or any modification of same ("Security Agreement"), shall secure this Note unless such Lien Document or Security Agreement specifically describes this Agreement as a part of the indebtedness secured thereby. As used herein, this "Agreement" means either (i) this Agreement or (ii) a promissory note, Confirmation Letter or other evidence of indebtedness which has been modified, renewed or extended in whole or in part by this Agreement. This exclusion shall apply notwithstanding the fact that such Lien Document or Security Agreement may appear to secure this Agreement by virtue of a cross-collateralization provision or other provisions expanding the scope of the secured obligations.

16. Supplemental provisions concerning cross-collateralization and personal property

Notwithstanding anything to the contrary in any Lien Document which specifically describes this Agreement as a part of the indebtedness secured thereby, (1) any cross-collateralization provision and any other provisions contained therein expanding the scope of the secured obligations beyond the Secured Debt, any related "swap agreements" (as defined in 11 U.S.C. Section 101), and obligations to protect and preserve collateral, shall have no force or effect, and (2) any lien or security interest granted in such Lien Document upon personal property shall not include any items of personal property located in a Covered Structure unless all applicable requirements of the Act, if any, have been satisfied with respect to such items of personal property. As used herein, "Secured Debt" means this Agreement and any other notes or agreements evidencing indebtedness specifically described or listed in and expressly secured by any such Lien Document(s) and modifications, renewals, and extensions of such notes and agreements, and "Covered Structure" means a building or mobile home as defined in the National Flood Insurance Act(as amended) and its implementing regulations (collectively, the "Act") located in an area designated by the Administrator of the Federal Emergency Management Agency as a special flood hazard area which requires flood insurance pursuant to the terms of the Act. Additionally, notwithstanding anything to the contrary in the Agreement, personal property security interests granted pursuant to the terms of the Agreement shall not secure any obligations beyond this Agreement any related "swap agreements" (as defined in 11 U.S.C. Section 101), and obligations to protect and preserve collateral. This exclusion shall apply notwithstanding the fact that the Agreement may appear to secure such other obligations by virtue of the definition of Indebtedness contained in the Agreement.

17. Money Laundering, Sanctions, Corrupt Practices, and Compliance with all laws

Borrower represents, warrants and agrees that Borrower, all Borrowers, and any of their parents, affiliates, subsidiaries, officers, directors, or agents (the "Borrowing Group") (1) are not now and will not become a Sanctioned Target(as defined below) of any trade, economic, financial, sectoral or secondary sanctions, restrictions, embargoes or anti-terrorism laws promulgated by the United Nations or the governments of the United States, the United Kingdom, the European Union, or any other governmental authority with jurisdiction over any of the Borrowing Group (collectively, "Sanctions"), and are not owned or controlled by, or acting or purporting to act for or on behalf of, directly or indirectly, a Sanctioned Target, (2) now comply and will at all times comply with, and have instituted and maintain, policies, procedures and controls reasonably designed to assure compliance with, the requirements of all laws, rules, regulations and orders of any governmental authority with jurisdiction over any of the Borrowing Group, or that are otherwise applicable to the Borrowing Group, including, without limitation, (a) all Sanctions, (b) all laws and regulations that relate to money laundering, any predicate crime to money laundering, or any financial record keeping and reporting requirements related thereto ("Anti-Money Laundering Laws"), and (c) the U.S. Foreign Corrupt Practices Act of 1977, as amended, the U.K. Bribery Act of 2010, as amended, and any other anti-bribery or anti-corruption laws and regulations in any jurisdiction in which the Borrowing Group is located or doing business ("Anti-Corruption Laws"), (3) to the best of Borrower's knowledge, after due care and inquiry, are not under investigation for an alleged violation of Sanctions, Anti-Money Laundering Laws or Anti-Corruption Laws by a governmental authority that enforces such Sanctions, Anti-Money Laundering Laws or Anti-Corruption Laws, (4) will not at any time directly or indirectly use any proceeds of any credit extended by Lender to fund, finance or facilitate any activities, businesses or transactions that are prohibited by Sanctions, Anti-Money Laundering Laws or Anti-Corruption Laws, or that would be prohibited by the same if conducted by Lender or any other party hereto, and (5) shall not fund any repayment of the credit with proceeds, or provide as collateral any property, that is directly or indirectly derived from any transaction or activity that is prohibited by Sanctions, Anti-Money Laundering Laws or Anti-Corruption Laws. Borrower shall notify Lender in writing not more than one (1) business day after first becoming aware of any breach of the foregoing paragraph. "Sanctioned Target" means any target of Sanctions, including (1) persons on any list of targets identified or designated pursuant to any Sanctions, (2) persons, countries, or territories that are the target of any territorial or country-based Sanctions program, (3) persons that are a target of Sanctions due to their ownership or control by any Sanctioned Target(s), or (4) persons otherwise a target of Sanctions, including vessels and aircraft, that are designated under any Sanctions program.

18. Laws governing this agreement

The laws of the state of South Dakota shall govern this Agreement. If any part of this Agreement cannot be enforced, this fact will not affect the rest of this Agreement. Lender may delay or forego enforcing any of its rights or remedies under this Agreement without losing them. Notwithstanding anything to the contrary, this Agreement shall not require or permit the payment, taking, reserving, receiving, collection, or charging of any sums constituting interest that exceed any maximum amount of interest permitted by applicable law. Any such excess interest shall be credited against the then unpaid principal balance or refunded to Customer. Without limiting the foregoing, all calculations to determine whether interest exceeds the maximum amount shall be made by amortizing, pro-rating, allocating, and spreading such sums over the full term of the loan.

19. Limitation on Lawsuits

Customer agrees that any lawsuit based upon any cause of action which Customer may have against Lender must be filed within one year from the date that it arises or Customer will be barred from filing the lawsuit. This limitation is intended to include tort, contract, and all other causes of action for which Customer and Lender may lawfully contract to set limitations for bringing suit.

20. Credit Evaluation

Credit reports and re-evaluation of credit: You authorize Lender to obtain business and personal credit bureau reports in the name of the Customer or its owners, at any time. You agree to submit to Lender current financial information in the name of the Customer and to submit to Lender, current financial information in its name, and the name of its owners at any time upon request. Such information shall be used for the purpose of evaluating or re-evaluating Customer's or its owners' creditworthiness. You also authorize Lender to use such information and to share it with its affiliates in order to determine whether you are qualified for other products and services offered by Lender and its affiliates. Lender may report its credit experience with Customer, its owners', and Customer's Loan(s) to third parties. Customer agrees that Lender may release information about Customer, its owners', the Loan Borrower(s)' and/or Customer's Loan to Lender affiliates.

Important Notice about Credit Reporting: Lender may report information about your Loan(s) to credit bureaus and/or consumer reporting agencies in your name or the name of your business organization. Late payments, missed payments, or other defaults on your Loan(s) may be reflected in your personal credit report or your business organization's credit report(s).

21. ARBITRATION

- 1) **Binding Arbitration:** The parties hereto agree, upon demand by any party, to submit any dispute to binding arbitration in accordance with the terms of this Paragraph 19 (the "Arbitration Program"). Arbitration may be demanded before the institution of a judicial proceeding, or during a judicial proceeding, but not more than 60 days after service of a complaint, third party complaint, cross-claim, or any answer thereto, or any amendment to any of such pleadings. A "Dispute" shall include any dispute, claim, or controversy of any kind, in contract or in tort, legal or equitable, now existing or hereafter arising, relating in any way to any aspect of this agreement, or any other agreement, document or instrument to which this Arbitration Program is attached or in which it appears or is referenced, or any related agreements, documents or instruments or any renewal, extension, modification, or refinancing of any indebtedness or obligation relating to the foregoing, including without limitation, their negotiation, execution, collateralization, administration, repayment, modification, extension, substitution, formation, inducement, enforcement, default, or termination. This provision is a material inducement for the parties entering into the transactions relating to this Agreement, DISPUTES SUBMITTED TO ARBITRATION ARE NOT RESOLVED IN COURT BY A JUDGE OR JURY. TO THE EXTENT ALLOWED BY APPLICABLE LAW, THE PARTIES IRREVOCABLY AND VOLUNTARILY WAIVE ANY RIGHT THEY MAY HAVE TO A TRIAL BY JURY WITH RESPECT TO ANY DISPUTE ARBITRATED PURSUANT TO THIS ARBITRATION PROGRAM.
- 2) **Governing Rules:** Any arbitration proceeding will: (i) be governed by the Federal Arbitration Act (Title 9 of the United States Code), notwithstanding any conflicting choice of law provision in any of the documents between the parties; and (ii) be conducted by the American Arbitration Association ("AAA"), or such other administrator as the parties shall mutually agree upon, in accordance with the AAA's commercial dispute resolution procedures, unless the claim or counterclaim is at least \$1,000,000.00 exclusive of claimed interest, arbitration fees, and costs in which case the arbitration shall be conducted in accordance with the AAA's optional procedures for large, complex commercial disputes (the commercial dispute resolution procedures or the optional procedures for large complex commercial disputes to be referred to herein, as applicable, as the "Rules"). If there is any inconsistency between the terms hereof and the Rules, the terms and procedures set forth herein shall control. Arbitration proceedings hereunder shall be conducted at a location mutually agreeable to the parties, or if they cannot agree, then at a location selected by the AAA in the state of South Dakota. Any party who fails or refuses to submit to arbitration following a demand by any other party shall bear all costs and expenses incurred by such other party in compelling arbitration of any Dispute. The arbitrator shall award all costs and expenses of the arbitration proceeding. Nothing contained herein shall be deemed to be a waiver by any party that is a lender of the protections afforded to it under 12 U.S.C. § 91 or any similar applicable state law.
- 3) **No Waiver of Provisional Remedies, Self-Help, and Foreclosure:** The arbitration requirement does not limit the right of any party to: (i) foreclose against any real or personal property collateral; (ii) exercising self-help remedies relating to collateral or proceeds of collateral such as setoff or repossession; or (iii) obtain provisional or ancillary remedies such as replevin, injunctive relief, attachment, or the appointment of a receiver, before during or after the pendency of any arbitration proceeding. This exclusion does not constitute a waiver of the right or any party, including the plaintiff, to submit the controversy or claim to arbitration if any other party contests such action for judicial relief, including those arising from the exercise of the actions detailed in section (i), (ii), and (iii) of this paragraph.
- 4) **Arbitrator Qualifications and Powers:** Any arbitration proceeding in which the amount in controversy is \$5,000,000.00 or less will be decided by a single arbitrator selected according to the Rules, and who shall not render an award of greater than \$5,000,000.00. Any Dispute in which the amount in controversy exceeds \$5,000,000.00 shall be decided by majority vote of a panel of three arbitrators; provided however, that all three arbitrators must actively participate in all hearings and deliberations. Every arbitrator must be a neutral practicing attorney or a retired member of the state or federal judiciary, in either case with a minimum of ten years' experience in the substantive law applicable to the subject matter of the Dispute. The arbitrator will determine whether or not an issue is arbitrable and will give effect to the statutes of limitation in determining any claim. In any arbitration proceeding the arbitrator will decide (by documents only or with a hearing at the arbitrator's discretion) any pre-hearing motions which are similar to motions to dismiss for failure to state a claim or motions for summary adjudication. The arbitrator shall resolve all Disputes in accordance with the applicable substantive law and may grant any remedy or relief that a court of such state could order or grant within the scope hereof and such ancillary relief as is necessary to make effective any award. The arbitrator shall also have the power to award recovery of all costs and fees, to impose sanctions and to take such other action as the arbitrator deems necessary to the same extent a judge could pursuant to the Federal Rules of Civil Procedure, the applicable state rules of civil procedure, or

other applicable law. Judgment upon the award rendered by the arbitrator may be entered in any court having jurisdiction. The institution and maintenance of an action for judicial relief or pursuit of a provisional or ancillary remedy shall not constitute a waiver of the right of any party, including the plaintiff, to submit the controversy or claim to arbitration if any other party contests such action for judicial relief.

- 5) **Discovery:** In any arbitration proceeding discovery will be permitted in accordance with the Rules. All discovery shall be expressly limited to matters directly relevant to the Dispute being arbitrated and must be completed no later than 20 days before the hearing date. Any requests for an extension of the discovery periods, or any discovery disputes, will be subject to final determination by the arbitrator upon a showing that the request for discovery is essential for the party's presentation and that no alternative means for obtaining information is available.
- 6) **Class Proceedings and Consolidations:** No party shall be entitled to join or consolidate disputes by or against others in any arbitration, except parties to this Agreement, or to include in any arbitration any dispute as a representative or member of a class, or to act in any arbitration in the interest of the general public or in a private attorney general capacity.
- 7) **Miscellaneous:** To the maximum extent practicable, the AAA, the arbitrators, and the parties shall take all action required to conclude any arbitration proceeding within 180 days of the filing of the Dispute with the AAA. No arbitrator or other party to an arbitration proceeding may disclose the existence, content or results thereof, except for disclosures of information by a party required in the ordinary course of its business or by applicable law or regulation. If more than one agreement for arbitration by or between the parties potentially applies to a Dispute, the arbitration provision most directly related to the documents between the parties or the subject matter of the Dispute shall control. This arbitration provision shall survive the repayment of the obligations that are the subject of this agreement and the termination, amendment, or expiration of any of the documents or any relationship between the parties.
- 8) **SBA Arbitration:** The parties specifically agree that the provisions of the Arbitration Program set forth above are not applicable to any dispute between any party and the U.S. Small Business Administration (the "SBA"), including but not limited to, any dispute with the SBA after purchase of the loan by the SBA.

22. SMALL BUSINESS ADMINISTRATION (SBA)

When SBA is the holder, this Agreement will be interpreted and enforced under federal law, including SBA regulations. Lender or SBA may use state or local procedures for filing papers, recording documents, giving notice, foreclosing liens, and other purposes. By using such procedures, SBA does not waive any federal immunity from state or local control, penalty, tax or liability. As to this Agreement, Borrower may not claim or assert against SBA any local or state law to deny any obligation, defeat any claim of SBA, or preempt federal law.

24. FACSIMILE AND COUNTERPARTS

This document may be signed in any number of separate copies, each of which shall be effective as an original, but all of which taken together shall constitute a single document. This Agreement shall be valid, binding, and enforceable against a party when executed by an authorized individual on behalf of the party by means of (i) an electronic signature that complies with the federal Electronic Signatures in Global and National Commerce Act, state enactments of the Uniform Electronic Transactions Act, or any other relevant and applicable electronic signatures law; (ii) an original manual signature; or (iii) a faxed, scanned, or photocopied manual signature. Each electronic signature or faxed, scanned, or photocopied manual signature shall for all purposes have the same validity, legal effect, and admissibility in evidence as an original manual signature.

25. TELEPHONE MONITORING AND CONTACTING YOU

The Lender may monitor or record calls. You agree, in order for Lender to service the Loan or to collect any amounts you may owe, that Lender may from time to time make calls and send text messages to you, using prerecorded/artificial voice messages and/or through the use of an automatic dialing device, at any telephone number associated with your account, including mobile telephone numbers that could result in charges to you. You also expressly consent to Lender sending email messages regarding your Loan to your email address.

26. FINAL AGREEMENT

The persons and entities signing below ("Party", or collectively, the "Parties") acknowledge and agree that each Party's execution of this Agreement constitutes acknowledgment that such Party (i) agrees that there are no oral agreements relating to this Agreement, (ii) agrees that agreements will be binding upon Lender only if in writing and signed by Lender, and (iii) acknowledges receipt of the following Notice, and to the fullest extent allowed by law, agrees to be bound by the terms of this Agreement and this Notice.

Notice: This Document And All Other Documents Relating To This Loan Constitute A Written Loan Agreement Which Represents The Final Agreement Between The Parties And May Not Be Contradicted By Evidence Of Prior, Contemporaneous, Or Subsequent Oral Agreements Of The Parties. There Are No Unwritten Oral Agreements Between The Parties Relating To This Loan.

27. TIME IS OF THE ESSENCE. Time is of the essence in the performance of the Agreement.

28. JOINT AND SEVERAL LIABILITY. The obligations of each Borrower shall be joint and several.

29. STATE SPECIFIC PROVISIONS.

If Borrower is resident of Delaware, Pennsylvania, or Maryland:

Confession Of Judgment. The Undersigned Hereby Irrevocably Authorizes And Empowers Any Attorney-At-Law To Appear In Any Court Of Record And

To Confess Judgment Against The Undersigned For The Unpaid Amount Of This Note As Evidenced By An Affidavit Signed By An Officer Of Lender Setting Forth The Amount Then Due, Together With All Indebtedness Provided For Therein (With Or Without Acceleration Of Maturity), Plus Attorneys' Fees Of Ten Percent (10%) Of The Total Indebtedness Or Five Thousand Dollars (\$5,000.00), Whichever Is The Larger Amount For The Collection, Which Borrower And Lender Agree Is Reasonable, Plus Costs Of Suit, And To Release All Errors, And Waive All Rights Of Appeal. The Undersigned Expressly Releases All Errors, Waives All Stay Of Execution, Rights Of Inquisition And Extension Upon Any Levy Upon Real Estate And All Exemption Of Property From Levy And Sale Upon Any Execution Hereon; And The Undersigned Expressly Agrees To Condemnation And Expressly Relinquishes All Rights To Benefits Or Exemptions Under Any And All Exemption Laws Now In Force Or Which May Hereafter Be Enacted. No Single Exercise Of The Foregoing Warrant And Power To Confess Judgment Will Be Deemed To Exhaust The Power, Whether Or Not Any Such Exercise Shall Be Held By Any Court To Be Invalid, Voidable Or Void; But The Power Will Continue Undiminished And May Be Exercised From Time To Time As Lender May Elect Until All Amounts Owning On This Note Have Been Paid In Full. The Undersigned Hereby Waives And Releases Any And All Claims Or Causes Of Action Which The Undersigned Might Have Against Any Attorney Acting Under The Terms Of Authority Which The Undersigned Has Granted Herein Arising Out Of Or Connected With The Confession Of Judgment Hereunder.

If Borrower is resident of Ohio:

Confession Of Judgment. The Undersigned Hereby Irrevocably Authorizes And Empowers Any Attorney-At-Law To Appear In Any Court Of Record And To Confess Judgment Against The Undersigned For The Unpaid Amount Of This Note As Evidenced By An Affidavit Signed By An Officer Of Lender Setting Forth The Amount Then Due, Together With All Indebtedness Provided For Therein (With Or Without Acceleration Of Maturity), Plus Attorneys' Fees Of Ten Percent (10%) Of The Total Indebtedness Or Five Thousand Dollars (\$5,000.00), Whichever Is The Larger Amount For The Collection, Which Borrower And Lender Agree Is Reasonable, Plus Costs Of Suit, And To Release All Errors, And Waive All Rights Of Appeal. The Undersigned Expressly Releases All Errors, Waives All Stay Of Execution, Rights Of Inquisition And Extension Upon Any Levy Upon Real Estate And All Exemption Of Property From Levy And Sale Upon Any Execution Hereon; And The Undersigned Expressly Agrees To Condemnation And Expressly Relinquishes All Rights To Benefits Or Exemptions Under Any And All Exemption Laws Now In Force Or Which May Hereafter Be Enacted. No Single Exercise Of The Foregoing Warrant And Power To Confess Judgment Will Be Deemed To Exhaust The Power, Whether Or Not Any Such Exercise Shall Be Held By Any Court To Be Invalid, Voidable Or Void; But The Power Will Continue Undiminished And May Be Exercised From Time To Time As Lender May Elect Until All Amounts Owning On This Note Have Been Paid In Full. The Undersigned Hereby Waives And Releases Any And All Claims Or Causes Of Action Which The Undersigned Might Have Against Any Attorney Acting Under The Terms Of Authority Which The Undersigned Has Granted Herein Arising Out Of Or Connected With The Confession Of Judgment Hereunder.

WARNING—BY SIGNING THIS PAPER YOU GIVE UP YOUR RIGHT TO NOTICE AND COURT TRIAL. IF YOU DO NOT PAY ON TIME, A COURT JUDGMENT MAY BE TAKEN AGAINST YOU WITHOUT YOUR PRIOR KNOWLEDGE AND THE POWERS OF A COURT CAN BE USED TO COLLECT FROM YOU REGARDLESS OF ANY CLAIMS YOU MAY HAVE AGAINST THE CREDITOR WHETHER FOR RETURNED GOODS, FAULTY GOODS, FAILURE ON HIS PART TO COMPLY WITH THE AGREEMENT, OR ANY OTHER CAUSE

If Borrower is resident of Virginia:

Confession Of Judgment. In The Event Of Any Default Under This Instrument, Including, But Not Limited To Any Payment Under This Instrument Not Being Paid When Due, Whether At Maturity, By Acceleration Or Otherwise, Borrower Hereby Irrevocably Appoints And Constitutes Dawn Dibenedetto Whose Address Is 400 N 8Th Street, Suite 1150, Richmond, VA 23219, Borrower's Duly Constituted Attorney-In-Fact To Appear In The Clerk's Office Of The Circuit Court For City Of Richmond, Virginia Or In Any Other Court Of Competent Jurisdiction, And To Confess Judgment Pursuant To The Provisions Of Section 8.01- 432 Of The Code Of Virginia Of 1950, As Amended, Against Borrower For All Principal And Interest And Any Other Amounts Due And Payable Under This Instrument As Evidenced By An Affidavit Signed By An Officer Of The Lender Setting Forth The Amount Then Due, Together With Attorney's Fees And Collection Fees As Provided In This Instrument (To The Extent Permitted By Law). This Power Of Attorney Is Coupled With An Interest And May Not Be Terminated By Borrower And Shall Not Be Revoked Or Terminated By Borrower And Shall Not Be Revoked Or Terminated By Borrower's Death, Disability Or Dissolution. If A Copy Of The Instrument, Verified By Affidavit, Shall Have Been Filed In The Above Clerk's Office, It Will Not Be Necessary To File The Original As A Warrant Of Attorney. Borrower Releases All Errors And Waives All Rights Of Appeal, Stay Of Execution, And The Benefit Of All Exemption Laws Now Or Hereafter In Effect. Borrower Shall, Upon Lender's Request, Name Such Additional Or Alternative Person(S) Designated By Lender As Borrower's Duly Constituted Attorney(S)-In-Fact To Confess Judgment Against The Borrower. No Single Exercise Of The Power To Confess Judgment Shall Be Deemed To Exhaust The Power And No Judgment Against Fewer Than All The Persons Constituting The Borrower Shall Bar Subsequent Action Or Judgment Against Any One Or More Of Such Persons Against Whom Judgment Has Not Been Obtained In This Instrument.

If Borrower is resident of Wisconsin:

Each Borrower who is married represents that this obligation is incurred in the interest of his or her marriage or family.

If Borrower is resident of Missouri:

Oral or unexecuted agreements or commitments to loan money, extend credit or to forbear from enforcing repayment of a debt including promises to extend or renew such debt are not enforceable, regardless of the legal theory upon which it is based that is in any way related to the credit agreement. To protect you, the Borrower(s), and us, the Lender, from misunderstanding or disappointment, any agreements we reach covering such matters are contained in this writing, which is the complete and exclusive statement of the agreement between us, except as we may later agree in writing to modify it.

If Borrower is resident of Illinois:

Borrower Agrees That Borrower, This Note And All Other Documents Executed In Connection Herewith, Regardless Of The Choice Of Law Made By Lender/Holder, Shall Be Governed By The Provisions Of The Credit Agreements Act (As Enacted By And Interpreted In The State Of Illinois) (815 Ilcs 160 *Et. Seq.*) And As That Act May Be Amended From Time To Time.

If Borrower is resident of Oregon:

Under Oregon Law, Most Agreements, Promises And Commitments Made By Lender Concerning Loans And Other Credit Extensions Which Are Not For Personal, Family, Or Household Purposes Or Secured Solely By Grantor's/Borrower's Residence Must Be In Writing, Express Consideration And Be Signed By An Authorized Representative Of Lender To Be Enforceable.

If Borrower is resident of Washington:

Oral Agreements Or Oral Commitments To Loan Money, Extend Credit, Or To Forbear From Enforcing Repayment Of A Debt Are Not Enforceable Under Washington Law.

Wells Fargo Bank, National Association

By _____

 _____

Name _____

Division Lending Manager _____

Title _____

05/03/2020 _____

Date _____

Borrower Acknowledgement and Acceptance

By signing below, and intending to be legally bound, Borrower acknowledges receipt of the Agreement.

International Stem Cell Corporation

By

DocuSigned by:
Andrey Semechkin
ABE5DA380EA0482...

Name *(Borrower's Signature)*

Title *(Borrower's Title)*

If Borrower is resident of Delaware, Pennsylvania, Ohio, Maryland or Virginia:

Borrower *(Borrower's Name)*

Wells Fargo Bank, National Association

Lender

5/04/2020 | 10:44:37 AM PDT

Date

Disclosure for Confession of Judgment

Initials

I/We have executed a Promissory Note (the "Note") obligating Borrower to repay the amount described therein.

Initials

Initials

Initials

I/We understand that the Note contains wording that would permit Lender to enter judgment against Borrower in Court, without advance notice to Borrower and without offering Borrower an opportunity to defend against the entry of judgment, and that the judgment may be collected immediately by any legal means.

Initials

Initials

Initials

In executing the Note, Borrower is knowingly, understandingly and voluntarily waiving its rights to resist the entry of judgment against it at the courthouse, including any right to advance notice of the entry of, or execution upon, said judgment, and Borrower is consenting to the confession of judgment.

Initials

Initials

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

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

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

Date: August 12, 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: August 12, 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 June 30, 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: August 12, 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 June 30, 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: August 12, 2020

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