

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended **September 30, 2019**

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: **000-55413**

**CELL SOURCE, INC.**  
(Exact name of registrant as specified in its charter)

**Nevada**

(State or other jurisdiction of incorporation or organization)

**32-0379665**

(I.R.S. Employer Identification No.)

**57 West 57th Street, Suite 400  
New York, New York**

(Address of principal executive offices)

**10019**

(Zip Code)

Registrant's telephone number, including area code: **(646) 416-7896**

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                | N/A               | N/A                                       |

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

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

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

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

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

As of November 12, 2019, the registrant had 26,479,471 shares of \$0.001 par value common stock outstanding.

CELL SOURCE, INC. AND SUBSIDIARY

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2019

TABLE OF CONTENTS

|                                                                                                                                             |           |
|---------------------------------------------------------------------------------------------------------------------------------------------|-----------|
| <b>PART I - FINANCIAL INFORMATION</b>                                                                                                       |           |
| Item 1. Financial Statements.                                                                                                               | 1         |
| Condensed Consolidated Balance Sheets as of<br>September 30, 2019 (Unaudited) and December 31, 2018                                         | 1         |
| Unaudited Condensed Consolidated Statements of Operations for the<br>Three and Nine Months Ended September 30, 2019 and 2018                | 2         |
| Unaudited Condensed Consolidated Statements of Changes in Stockholders' Deficiency for the<br>Nine Months Ended September 30, 2019 and 2018 | 3         |
| Unaudited Condensed Consolidated Statements of Cash Flows for the<br>Nine Months Ended September 30, 2019 and 2018                          | 4         |
| Notes to Unaudited Condensed Consolidated Financial Statements                                                                              | 5         |
| Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.                                              | 12        |
| Item 3. Quantitative and Qualitative Disclosures About Market Risk.                                                                         | 14        |
| Item 4. Controls and Procedures.                                                                                                            | 15        |
| <b>PART II - OTHER INFORMATION</b>                                                                                                          |           |
| Item 1. Legal Proceedings.                                                                                                                  | 16        |
| Item 1A. Risk Factors.                                                                                                                      | 16        |
| Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.                                                                        | 16        |
| Item 3. Defaults Upon Senior Securities.                                                                                                    | 16        |
| Item 4. Mine Safety Disclosures.                                                                                                            | 16        |
| Item 5. Other Information.                                                                                                                  | 16        |
| Item 6. Exhibits.                                                                                                                           | 17        |
| <b>SIGNATURES</b>                                                                                                                           | <b>18</b> |

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## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements.

**CELL SOURCE, INC. AND SUBSIDIARY**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

|                                                                                                                                                                                                                                                                                                                                                                                       | September 30,<br>2019<br>(Unaudited) | December 31,<br>2018 |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------|----------------------|
| <b>Assets</b>                                                                                                                                                                                                                                                                                                                                                                         |                                      |                      |
| Current Assets:                                                                                                                                                                                                                                                                                                                                                                       |                                      |                      |
| Cash                                                                                                                                                                                                                                                                                                                                                                                  | \$ 8,831                             | \$ 18,934            |
| Prepaid expenses                                                                                                                                                                                                                                                                                                                                                                      | 40,315                               | 38,926               |
| Other current assets                                                                                                                                                                                                                                                                                                                                                                  | 28,301                               | 7,932                |
| Total Assets                                                                                                                                                                                                                                                                                                                                                                          | <u>\$ 77,447</u>                     | <u>\$ 65,792</u>     |
| <b>Liabilities and Stockholders' Deficiency</b>                                                                                                                                                                                                                                                                                                                                       |                                      |                      |
| Current Liabilities:                                                                                                                                                                                                                                                                                                                                                                  |                                      |                      |
| Accounts payable                                                                                                                                                                                                                                                                                                                                                                      | \$ 448,523                           | \$ 277,786           |
| Accrued expenses                                                                                                                                                                                                                                                                                                                                                                      | 1,121,881                            | 532,790              |
| Accrued expenses - related party                                                                                                                                                                                                                                                                                                                                                      | 105,333                              | 72,000               |
| Accrued interest                                                                                                                                                                                                                                                                                                                                                                      | 335,659                              | 345,948              |
| Accrued interest - related parties                                                                                                                                                                                                                                                                                                                                                    | 29,803                               | 27,559               |
| Accrued compensation                                                                                                                                                                                                                                                                                                                                                                  | 651,202                              | 587,734              |
| Accrued compensation - related party                                                                                                                                                                                                                                                                                                                                                  | 103,526                              | 55,083               |
| Advances payable                                                                                                                                                                                                                                                                                                                                                                      | 375,500                              | 100,000              |
| Advances payable - related party                                                                                                                                                                                                                                                                                                                                                      | 100,000                              | 100,000              |
| Notes payable, net of debt discount of \$5,392 and \$0,<br>as of September 30, 2019 and December 31, 2018, respectively                                                                                                                                                                                                                                                               | 1,107,608                            | 1,463,000            |
| Notes payable - related parties                                                                                                                                                                                                                                                                                                                                                       | 150,000                              | 150,000              |
| Convertible notes payable, net of debt discount of \$2,242 and \$0,<br>as of September 30, 2019 and December 31, 2018, respectively                                                                                                                                                                                                                                                   | 610,758                              | 835,000              |
| Convertible notes payable - related parties                                                                                                                                                                                                                                                                                                                                           | 225,000                              | 225,000              |
| Derivative liabilities                                                                                                                                                                                                                                                                                                                                                                | 380,100                              | 200,500              |
| Accrued dividend payable                                                                                                                                                                                                                                                                                                                                                              | 247,102                              | 13,563               |
| Total Liabilities                                                                                                                                                                                                                                                                                                                                                                     | <u>5,991,995</u>                     | <u>4,985,963</u>     |
| Commitments and contingencies (Note 8)                                                                                                                                                                                                                                                                                                                                                |                                      |                      |
| Stockholders' Deficiency:                                                                                                                                                                                                                                                                                                                                                             |                                      |                      |
| Convertible Preferred Stock, \$0.001 par value, 10,000,000 shares authorized; Series A Convertible Preferred Stock, 1,335,000 shares designated, 1,168,759 and 860,291 shares issued and outstanding as of September 30, 2019 and December 31, 2018, respectively; liquidation preference of \$9,012,794 and \$6,465,745 as of September 30, 2019 and December 31, 2018, respectively | 1,169                                | 860                  |
| Common Stock, \$0.001 par value, 200,000,000 shares authorized, 26,479,471 and 26,077,611 shares issued and outstanding as of September 30, 2019 and December 31, 2018, respectively                                                                                                                                                                                                  | 26,479                               | 26,078               |
| Additional paid-in capital                                                                                                                                                                                                                                                                                                                                                            | 14,627,597                           | 11,723,224           |
| Accumulated deficit                                                                                                                                                                                                                                                                                                                                                                   | (20,569,793)                         | (16,670,333)         |
| Total Stockholders' Deficiency                                                                                                                                                                                                                                                                                                                                                        | <u>(5,914,548)</u>                   | <u>(4,920,171)</u>   |
| Total Liabilities and Stockholders' Deficiency                                                                                                                                                                                                                                                                                                                                        | <u>\$ 77,447</u>                     | <u>\$ 65,792</u>     |

The accompanying notes are an integral part of these condensed consolidated financial statements.

CELL SOURCE, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

|                                                                            | For the Three Months Ended<br>September 30, |                     | For the Nine Months Ended<br>September 30, |                       |
|----------------------------------------------------------------------------|---------------------------------------------|---------------------|--------------------------------------------|-----------------------|
|                                                                            | 2019                                        | 2018                | 2019                                       | 2018                  |
| <b>Operating Expenses:</b>                                                 |                                             |                     |                                            |                       |
| Research and development                                                   | \$ 1,158,757                                | \$ 56,459           | \$ 2,269,269                               | \$ 165,997            |
| Research and development - related party                                   | 33,333                                      | 72,527              | 83,333                                     | 375,151               |
| Selling, general and administrative                                        | 244,609                                     | 359,660             | 985,037                                    | 1,031,517             |
| Total Operating Expenses                                                   | <u>1,436,699</u>                            | <u>488,646</u>      | <u>3,337,639</u>                           | <u>1,572,665</u>      |
| Loss From Operations                                                       | <u>(1,436,699)</u>                          | <u>(488,646)</u>    | <u>(3,337,639)</u>                         | <u>(1,572,665)</u>    |
| <b>Other (Expense) Income:</b>                                             |                                             |                     |                                            |                       |
| Interest expense                                                           | (26,418)                                    | (30,923)            | (159,202)                                  | (124,774)             |
| Interest expense - related parties                                         | (683)                                       | (756)               | (1,977)                                    | (49,244)              |
| Amortization of debt discount                                              | (3,566)                                     | -                   | (10,095)                                   | (173,099)             |
| Amortization of debt discount - related parties                            | -                                           | -                   | -                                          | (28,356)              |
| Change in fair value of derivative liabilities                             | 33,500                                      | 115,500             | 118,500                                    | 390,400               |
| Warrant modification expense                                               | (54,100)                                    | -                   | (283,500)                                  | -                     |
| Loss on exchange of notes payable for Series A Convertible Preferred Stock | -                                           | -                   | (262,470)                                  | -                     |
| Loss on extinguishment of debt                                             | -                                           | -                   | (1,504)                                    | -                     |
| Gain on forgiveness of accrued expenses                                    | -                                           | -                   | 38,427                                     | -                     |
| Total Other (Expense) Income                                               | <u>(51,267)</u>                             | <u>83,821</u>       | <u>(561,821)</u>                           | <u>14,927</u>         |
| Net Loss                                                                   | (1,487,966)                                 | (404,825)           | (3,899,460)                                | (1,557,738)           |
| Dividend attributable to Series A preferred stockholders                   | (197,911)                                   | (110,666)           | (534,919)                                  | (327,626)             |
| Net Loss Applicable to Common Stockholders                                 | <u>\$ (1,685,877)</u>                       | <u>\$ (515,491)</u> | <u>\$ (4,434,379)</u>                      | <u>\$ (1,885,364)</u> |
| Net Loss Per Common Share - Basic and Diluted                              | <u>\$ (0.06)</u>                            | <u>\$ (0.02)</u>    | <u>\$ (0.16)</u>                           | <u>\$ (0.07)</u>      |
| Weighted Average Common Shares Outstanding -<br>Basic and Diluted          | <u>28,523,306</u>                           | <u>27,580,598</u>   | <u>28,262,759</u>                          | <u>27,456,267</u>     |

The accompanying notes are an integral part of these condensed consolidated financial statements.

CELL SOURCE, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' DEFICIENCY

(Unaudited)

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019

|                                                                                | Convertible Preferred Stock - Series A |                 | Common Stock      |                  | Additional Paid-In Capital | Accumulated Deficit    | Total Stockholders' Deficiency |
|--------------------------------------------------------------------------------|----------------------------------------|-----------------|-------------------|------------------|----------------------------|------------------------|--------------------------------|
|                                                                                | Shares                                 | Amount          | Shares            | Amount           |                            |                        |                                |
| <b>Balance, January 1, 2019</b>                                                | 860,291                                | \$ 860          | 26,077,611        | \$ 26,078        | \$ 11,723,224              | \$ (16,670,333)        | \$ (4,920,171)                 |
| Issuance of Series A Convertible Preferred Stock for cash                      | 43,331                                 | 43              | -                 | -                | 324,957                    | -                      | 325,000                        |
| Issuance of Series A Convertible Preferred Stock in exchange for notes payable | 145,367                                | 145             | -                 | -                | 1,090,109                  | -                      | 1,090,254                      |
| Series A Convertible Preferred Stock dividends:                                |                                        |                 |                   |                  |                            |                        |                                |
| Accrual of earned dividends                                                    | -                                      | -               | -                 | -                | (148,035)                  | -                      | (148,035)                      |
| Net loss                                                                       | -                                      | -               | -                 | -                | -                          | (1,458,509)            | (1,458,509)                    |
| <b>Balance, March 31, 2019</b>                                                 | <u>1,048,989</u>                       | <u>1,048</u>    | <u>26,077,611</u> | <u>26,078</u>    | <u>12,990,255</u>          | <u>(18,128,842)</u>    | <u>(5,111,461)</u>             |
| Issuance of Series A Convertible Preferred Stock for cash                      | 106,437                                | 107             | -                 | -                | 798,162                    | -                      | 798,269                        |
| Series A Convertible Preferred Stock dividends:                                |                                        |                 |                   |                  |                            |                        |                                |
| Accrual of earned dividends                                                    | -                                      | -               | -                 | -                | (188,973)                  | -                      | (188,973)                      |
| Payment of dividends in kind                                                   | -                                      | -               | 401,860           | 401              | 300,978                    | -                      | 301,379                        |
| Net loss                                                                       | -                                      | -               | -                 | -                | -                          | (952,985)              | (952,985)                      |
| <b>Balance, June 30, 2019</b>                                                  | <u>1,155,426</u>                       | <u>1,155</u>    | <u>26,479,471</u> | <u>26,479</u>    | <u>13,900,422</u>          | <u>(19,081,827)</u>    | <u>(5,153,771)</u>             |
| Issuance of Series A Convertible Preferred Stock for cash                      | 13,333                                 | 14              | -                 | -                | 99,986                     | -                      | 100,000                        |
| Series A Convertible Preferred Stock dividends:                                |                                        |                 |                   |                  |                            |                        |                                |
| Accrual of earned dividends                                                    | -                                      | -               | -                 | -                | (197,911)                  | -                      | (197,911)                      |
| Stock-based compensation:                                                      |                                        |                 |                   |                  |                            |                        |                                |
| Options                                                                        | -                                      | -               | -                 | -                | 825,100                    | -                      | 825,100                        |
| Net loss                                                                       | -                                      | -               | -                 | -                | -                          | (1,487,966)            | (1,487,966)                    |
| <b>Balance, September 30, 2019</b>                                             | <u>1,168,759</u>                       | <u>\$ 1,169</u> | <u>26,479,471</u> | <u>\$ 26,479</u> | <u>\$ 14,627,597</u>       | <u>\$ (20,569,793)</u> | <u>\$ (5,914,548)</u>          |

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018

|                                                           | Convertible Preferred Stock - Series A |            | Common Stock      |               | Additional Paid-In Capital | Accumulated Deficit | Total Stockholders' Deficiency |
|-----------------------------------------------------------|----------------------------------------|------------|-------------------|---------------|----------------------------|---------------------|--------------------------------|
|                                                           | Shares                                 | Amount     | Shares            | Amount        |                            |                     |                                |
| <b>Balance, January 1, 2018</b>                           | 643,790                                | \$ 644     | 25,349,236        | \$ 25,349     | \$ 9,969,520               | \$ (14,552,887)     | \$ (4,557,374)                 |
| Issuance of Series A Convertible Preferred Stock for cash | 6,667                                  | 6          | -                 | -             | 49,994                     | -                   | 50,000                         |
| Series A Convertible Preferred Stock dividends:           |                                        |            |                   |               |                            |                     |                                |
| Accrual of earned dividends                               | -                                      | -          | -                 | -             | (107,496)                  | -                   | (107,496)                      |
| Net loss                                                  | -                                      | -          | -                 | -             | -                          | (712,184)           | (712,184)                      |
| <b>Balance, March 31, 2018</b>                            | <u>650,457</u>                         | <u>650</u> | <u>25,349,236</u> | <u>25,349</u> | <u>9,912,018</u>           | <u>(15,265,071)</u> | <u>(5,327,054)</u>             |
| Series A Convertible Preferred Stock dividends:           |                                        |            |                   |               |                            |                     |                                |
| Accrual of earned dividends                               | -                                      | -          | -                 | -             | (109,464)                  | -                   | (109,464)                      |
| Net loss                                                  | -                                      | -          | -                 | -             | -                          | (440,729)           | (440,729)                      |
| <b>Balance, June 30, 2018</b>                             | <u>650,457</u>                         | <u>650</u> | <u>25,349,236</u> | <u>25,349</u> | <u>9,802,554</u>           | <u>(15,705,800)</u> | <u>(5,877,247)</u>             |
| Series A Convertible Preferred Stock dividends:           |                                        |            |                   |               |                            |                     |                                |
| Accrual of earned dividends                               | -                                      | -          | -                 | -             | (110,666)                  | -                   | (110,666)                      |
| Payment of dividends in-kind                              | -                                      | -          | 431,313           | 432           | 323,052                    | -                   | 323,484                        |

|                                    |                |               |                   |                  |                      |                        |                       |
|------------------------------------|----------------|---------------|-------------------|------------------|----------------------|------------------------|-----------------------|
| Net loss                           | -              | -             | -                 | -                | -                    | (404,825)              | (404,825)             |
| <b>Balance, September 30, 2018</b> | <u>650,457</u> | <u>\$ 650</u> | <u>25,780,549</u> | <u>\$ 25,781</u> | <u>\$ 10,014,940</u> | <u>\$ (16,110,625)</u> | <u>\$ (6,069,254)</u> |

The accompanying notes are an integral part of these condensed consolidated financial statements.

**CELL SOURCE, INC. AND SUBSIDIARY**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited)

|                                                                                                          | For The Nine Months Ended September 30, |                    |
|----------------------------------------------------------------------------------------------------------|-----------------------------------------|--------------------|
|                                                                                                          | 2019                                    | 2018               |
| <b>Cash Flows From Operating Activities:</b>                                                             |                                         |                    |
| Net loss                                                                                                 | \$ (3,899,460)                          | \$ (1,557,738)     |
| Adjustments to reconcile net loss to net cash used in operating activities:                              |                                         |                    |
| Change in fair value of derivative liabilities                                                           | (118,500)                               | (390,400)          |
| Warrant modification expense                                                                             | 283,500                                 | -                  |
| Amortization of debt discount                                                                            | 10,095                                  | 201,455            |
| Loss on exchange of notes payable for preferred shares                                                   | 262,470                                 | -                  |
| Loss on extinguishment of debt                                                                           | 1,504                                   | -                  |
| Gain on forgiveness of accrued expenses                                                                  | (38,427)                                | -                  |
| Stock-based compensation:                                                                                |                                         |                    |
| Common Stock                                                                                             | 1,750                                   | -                  |
| Options                                                                                                  | 825,100                                 | -                  |
| Warrants                                                                                                 | 78,791                                  | -                  |
| Changes in operating assets and liabilities:                                                             |                                         |                    |
| Prepaid expenses                                                                                         | (1,389)                                 | 39,426             |
| Other current assets                                                                                     | (20,369)                                | (12,385)           |
| Accounts payable                                                                                         | 170,737                                 | 87,208             |
| Accrued expenses                                                                                         | 455,602                                 | 40,173             |
| Accrued expenses-related parties                                                                         | 33,333                                  | -                  |
| Accrued interest                                                                                         | 159,350                                 | 85,728             |
| Accrued interest - related parties                                                                       | 2,244                                   | 13,244             |
| Accrued compensation                                                                                     | 69,797                                  | 80,362             |
| <b>Net Cash Used In Operating Activities</b>                                                             | <b>(1,723,872)</b>                      | <b>(1,412,927)</b> |
| <b>Cash Flows From Financing Activities:</b>                                                             |                                         |                    |
| Proceeds from issuance of notes payable                                                                  | 120,000                                 | 500,000            |
| Proceeds from issuance of convertible notes payable                                                      | 165,000                                 | -                  |
| Proceeds from advances payable                                                                           | 275,500                                 | 500,000            |
| Repayment of notes payable                                                                               | (70,000)                                | -                  |
| Proceeds from issuance of preferred stock - Series A                                                     | 1,223,269                               | 50,000             |
| <b>Net Cash Provided By Financing Activities</b>                                                         | <b>1,713,769</b>                        | <b>1,050,000</b>   |
| <b>Net Decrease In Cash</b>                                                                              | <b>(10,103)</b>                         | <b>(362,927)</b>   |
| <b>Cash - Beginning of Period</b>                                                                        | <b>18,934</b>                           | <b>371,048</b>     |
| <b>Cash - End of Period</b>                                                                              | <b>\$ 8,831</b>                         | <b>\$ 8,121</b>    |
| <b>Supplemental Disclosures of Cash Flow Information:</b>                                                |                                         |                    |
| Cash paid for:                                                                                           |                                         |                    |
| Interest                                                                                                 | \$ -                                    | \$ 18,030          |
| Income taxes                                                                                             | \$ -                                    | \$ -               |
| Non-cash investing and financing activities:                                                             |                                         |                    |
| Preferred stock issued in exchange for notes and advances payable                                        | \$ 1,090,254                            | \$ -               |
| Repayment of convertible note payable and accrued interest by third party                                | \$ 133,488                              | \$ -               |
| Accrual of earned preferred stock dividends                                                              | \$ (534,919)                            | \$ (327,626)       |
| Common stock issued in connection with payment of Series A Convertible Preferred Stock dividends in-kind | \$ 301,379                              | \$ 323,484         |
| Warrants and conversion options issued in connection with issuance and extension of notes payable        | \$ 15,600                               | \$ 49,600          |
| Original issue discount in connection with convertible note payable                                      | \$ 6,000                                | \$ -               |
| Extinguishment of conversion option in connection with repayment of notes payable                        | \$ 1,000                                | \$ -               |

The accompanying notes are an integral part of these condensed consolidated financial statements.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

**Note 1 - Business Organization, Nature of Operations and Basis of Presentation****Organization and Operations**

Cell Source, Inc. ("Cell Source", "CSI" or the "Company") is a Nevada corporation formed on June 6, 2012 that is the parent company of Cell Source Limited ("CSL"), a wholly owned subsidiary which was founded in Israel in 2011 in order to commercialize a suite of inventions relating to certain cancer treatments. The Company is a biotechnology company focused on developing cell therapy treatments based on the management of immune tolerance. The Company's lead prospective product is its patented Veto Cell immune system management technology, which is an immune tolerance biotechnology that enables the selective blocking of immune responses. CSL's Veto Cell immune system management technology is based on technologies patented, owned, and licensed to CSL by Yeda Research and Development Company Limited, an Israeli corporation ("Yeda") (see Note 7, *Related Party Transactions*). The Company's target indications include: lymphoma, leukemia and multiple myeloma through the facilitation of safer and more accessible stem cell (e.g. bone marrow) transplantation acceptance, treatment of end stage kidney disease and other non-malignant organ diseases through improved organ transplantation (broadened donor pool, reduced dependence on post-transplant anti-rejection therapy), and ultimately treating a variety of cancers and non-malignant diseases.

**Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and with the instructions to Form 10-Q and Article 8 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, such statements include all adjustments (consisting only of normal recurring items) which are considered necessary for a fair presentation of the condensed consolidated financial position of the Company as of September 30, 2019 and the condensed consolidated results of its operations and cash flows for the three and nine months ended September 30, 2019 and 2018. The results of operations for the three and nine months ended September 30, 2019 are not necessarily indicative of the operating results for the full year ending December 31, 2019 or any other period. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related disclosures of the Company as of December 31, 2018 and for the year then ended which were included in the Company's Annual Report on Form 10-K that was filed with the Securities and Exchange Commission ("SEC") on April 1, 2019.

**Note 2 - Going Concern and Management Plans**

During the nine months ended September 30, 2019, the Company had not generated any revenues, had a net loss of approximately \$3,899,000 and had used cash in operations of approximately \$1,724,000. As of September 30, 2019, the Company had a working capital deficiency of approximately \$5,915,000 and an accumulated deficit of approximately \$20,570,000. Subsequent to September 30, 2019 and as more fully described in Note 9, *Subsequent Events*, the Company received proceeds of \$500,000 from an advance payable and aggregate proceeds of \$329,505 through the sale of 43,937 shares of Series A Convertible Preferred Stock at \$7.50 per share.

The Company is currently funding its operations on a month-to-month basis. While there can be no assurance that it will be successful, the Company is in active negotiations to raise additional capital. The Company's primary source of operating funds since inception has been equity and debt financings. Management's plans include continued efforts to raise additional capital through debt and equity financings. There is no assurance that these funds will be sufficient to enable the Company to fully complete its development activities or attain profitable operations. If the Company is unable to obtain such additional financing on a timely basis or, notwithstanding any request the Company may make, if the Company's debt holders do not agree to convert their notes into equity or extend the maturity dates of their notes, the Company may have to curtail its development, marketing and promotional activities, which would have a material adverse effect on the Company's business, financial condition and results of operations, and ultimately the Company could be forced to discontinue its operations and liquidate.

The accompanying condensed consolidated financial statements have been prepared in conformity with U.S. GAAP, which contemplate continuation of the Company as a going concern and the realization of assets and satisfaction of liabilities in the normal course of business. The carrying amounts of assets and liabilities presented in the financial statements do not necessarily purport to represent realizable or settlement values. The condensed consolidated financial statements do not include any adjustment that might result from the outcome of this uncertainty.



### Note 3 - Summary of Significant Accounting Policies

#### Loss Per Share

The Company computes basic net loss per share by dividing net loss by the weighted average number of common shares outstanding for the period and excludes the effects of any potentially dilutive securities. Diluted earnings per share includes the dilution that would occur upon the exercise or conversion of all dilutive securities into common stock using the "treasury stock" and/or "if converted" methods, as applicable. Weighted average shares outstanding for the three and nine months ended September 30, 2019 and 2018 includes the weighted average impact of warrants to purchase an aggregate of 2,043,835 shares of common stock because their exercise price was determined to be nominal.

The following securities are excluded from the calculation of weighted average dilutive common shares because their inclusion would have been anti-dilutive:

|                             | September 30,     |                   |
|-----------------------------|-------------------|-------------------|
|                             | 2019              | 2018              |
| Options                     | 3,782,004         | -                 |
| Warrants                    | 6,459,157         | 11,915,481        |
| Convertible notes           | 1,172,144         | 1,549,810         |
| Convertible preferred stock | 11,687,590        | 6,504,570         |
| Total                       | <u>23,100,895</u> | <u>19,969,861</u> |

Convertible notes are assumed to be converted at the rate of \$0.75 per common share, which is the conversion price as of September 30, 2019. However, such conversion rates are subject to adjustment under certain circumstances, which may result in the issuance of common shares greater than the amount indicated.

#### Recently Adopted Accounting Pronouncements

In June 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2018-07, "Compensation — Stock Compensation (Topic 718)" ("ASU 2018-07"). ASU 2018-07 is intended to reduce cost and complexity of financial reporting for non-employee share-based payments. Currently, the accounting requirements for non-employee and employee share-based payments are significantly different. ASU 2018-07 expands the scope of Topic 718, which currently only includes share-based payments to employees, to include share-based payments to non-employees for goods or services. Consequently, the accounting for share-based payments to non-employees and employees will be substantially aligned. This ASU supersedes Subtopic 505-50, "Equity — Equity-Based Payments to Nonemployees." The amendments to ASU 2018 - 07 are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted, but no earlier than a company's adoption date of ASU No. 2014-09, (Topic 606), "Revenue from Contracts with Customers." The Company adopted ASU 2018-07 effective July 1, 2019 and its adoption did not have a material impact on the Company's condensed consolidated financial position, results of operations or cash flows.

#### Note 4 - Fair Value

The Company determines the estimated fair value of amounts presented in these condensed consolidated financial statements using available market information and appropriate methodologies. However, considerable judgment is required in interpreting market data to develop the estimates of fair value. The estimates presented in the financial statements are not necessarily indicative of the amounts that could be realized in a current exchange between buyer and seller. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts. These fair value estimates were based upon pertinent information available as of September 30, 2019 and December 31, 2018, and, as of those dates, the carrying value of all amounts approximates fair value. The Company estimated the fair value of its restricted common stock during the three and nine months ended September 30, 2019 based upon observations of the recent sales of Preferred Stock convertible into common stock as well as the thinly traded volume and closing prices of its common stock. On June 7, 2018, the Company obtained a third-party valuation of its common stock as of December 31, 2017. As the nature of the Company's operations has not significantly changed since the date of the valuation and the Company has continued to raise capital during 2018 and 2019 at the same valuation as the capital raised during the year ended December 31, 2017, management's estimate of the fair value of its restricted common stock has not changed during the three and nine months ended September 30, 2019.

The Company has categorized its assets and liabilities at fair value based upon the following fair value hierarchy:

Level 1 Inputs use quoted prices in active markets for identical assets or liabilities that the Company has the ability to access.

Level 2 Inputs use directly or indirectly observable inputs. These inputs include quoted prices for similar assets and liabilities in active markets as well as other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 Inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset or liability.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Company's assessment of the significance of particular inputs to these fair measurements requires judgment and considers factors specific to each asset or liability.

Both observable and unobservable inputs may be used to determine the fair value of positions that are classified within the Level 3 category. As a result, the unrealized gains and losses for assets within the Level 3 category presented in the tables below may include changes in fair value that were attributable to both observable (e.g., changes in market interest rates) and unobservable (e.g., changes in historical company data) inputs. The following table summarizes the valuation of the Company's derivatives by the above fair value hierarchy levels as of September 30, 2019 and December 31, 2018 using quoted prices in active markets for identical assets (Level 1), significant other observable inputs (Level 2), and significant unobservable inputs (Level 3):

|                                                 | Total             | Quoted Prices<br>In Active<br>Markets for<br>Identical<br>Liabilities<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|-------------------------------------------------|-------------------|------------------------------------------------------------------------------------|-----------------------------------------------------------|----------------------------------------------------|
| Accrued compensation - common stock             | \$ 39,250         | \$ -                                                                               | \$ -                                                      | \$ 39,250                                          |
| Accrued compensation - warrants                 | 55,089            | -                                                                                  | -                                                         | 55,089                                             |
| Accrued compensation - warrants - related party | 103,526           | -                                                                                  | -                                                         | 103,526                                            |
| Derivative liabilities                          | 380,100           | -                                                                                  | -                                                         | 380,100                                            |
| <b>Balance - September 30, 2019</b>             | <u>\$ 577,965</u> | <u>\$ -</u>                                                                        | <u>\$ -</u>                                               | <u>\$ 577,965</u>                                  |
| Accrued compensation - common stock             | \$ 37,500         | \$ -                                                                               | \$ -                                                      | \$ 37,500                                          |
| Accrued compensation - warrants                 | 24,741            | -                                                                                  | -                                                         | 24,741                                             |
| Accrued compensation - warrants - related party | 55,083            | -                                                                                  | -                                                         | 55,083                                             |
| Derivative liabilities                          | 200,500           | -                                                                                  | -                                                         | 200,500                                            |
| <b>Balance - December 31, 2018</b>              | <u>\$ 317,824</u> | <u>\$ -</u>                                                                        | <u>\$ -</u>                                               | <u>\$ 317,824</u>                                  |

Financial assets are considered Level 3 when their fair values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable. The Company's Level 3 liabilities shown in the above table consist of warrants deemed to be derivative liabilities according to the Company's sequencing policy in accordance with ASC 815-40-35-12, the conversion option of convertible notes payable, and an accrued obligation to issue warrants and common stock.

The following table provides a summary of the changes in fair value, including net transfers in and/or out, of all Level 3 liabilities measured at fair value on a recurring basis using unobservable inputs during the nine months ended September 30, 2019:

|                                                 | Accrued<br>Compensation | Derivative<br>Liabilities | Total             |
|-------------------------------------------------|-------------------------|---------------------------|-------------------|
| <b>Balance - December 31, 2018</b>              | \$ 117,324              | \$ 200,500                | \$ 317,824        |
| Issuance of warrants and conversion options     | -                       | 15,600                    | 15,600            |
| Extinguishment of conversion option             | -                       | (1,000)                   | (1,000)           |
| Warrant modification                            | -                       | 283,500                   | 283,500           |
| Accrued compensation - common stock             | 1,750                   | -                         | 1,750             |
| Accrued compensation - warrants                 | 30,604                  | -                         | 30,604            |
| Accrued compensation - warrants - related party | 49,017                  | -                         | 49,017            |
| Change in fair value                            | <u>(830)</u>            | <u>(118,500)</u>          | <u>(119,330)</u>  |
| <b>Balance - September 30, 2019</b>             | <u>\$ 197,865</u>       | <u>\$ 380,100</u>         | <u>\$ 577,965</u> |

As of September 30, 2019, the Company had an obligation to issue 150,000 shares of common stock to a service provider. The shares had a fair value of \$37,500, which was a component of accrued compensation on the condensed consolidated balance sheet.

Assumptions utilized in the valuation of Level 3 liabilities are described as follows:

|                         | For the Three Months Ended<br>September 30, |             | For the Nine Months Ended<br>September 30, |             |
|-------------------------|---------------------------------------------|-------------|--------------------------------------------|-------------|
|                         | 2019                                        | 2018        | 2019                                       | 2018        |
| Risk-free interest rate | 1.55%-1.91%                                 | 2.12%-2.91% | 1.17%-2.44%                                | 1.73%-2.91% |
| Expected term (years)   | 0.11-5.00                                   | 0.08 - 4.41 | 0.02-5.00                                  | 0.25-4.76   |
| Expected volatility     | 110%                                        | 110%        | 110%                                       | 110%        |
| Expected dividends      | 0.00%                                       | 0.00%       | 0.00%                                      | 0.00%       |

The expected term used is the contractual life of the instrument being valued. Since the Company's stock has not been publicly traded for a sufficiently long period of time or with significant volume, the Company is utilizing an expected volatility based on a review of the historical volatilities, over a period of time, equivalent to the expected life of the instrument being valued, of similarly positioned public companies within its industry. The risk-free interest rate was determined from the implied yields from U.S. Treasury zero-coupon bonds with a remaining term consistent with the expected term of the instrument being valued.

#### Note 5 – Notes Payable and Convertible Notes Payable

During the three months ended September 30, 2019 and 2018, the Company recorded interest expense of \$26,418 and \$30,923, respectively, and interest expense for related party debt of \$683 and \$756, respectively. During the nine months ended September 30, 2019 and 2018, the Company recorded interest expense of \$159,202 and \$124,774, respectively, and interest expense for related party debt of \$1,977 and \$49,244, respectively.

During the three months ended September 30, 2019 and 2018, the Company recorded amortization of debt discount of \$3,566 and \$0, respectively, and amortization of debt discount for related party debt of \$0 and \$0, respectively. During the nine months ended September 30, 2019 and 2018, the Company recorded amortization of debt discount of \$10,095 and \$173,099, respectively, and amortization of debt discount for related party debt of \$0 and \$28,356, respectively.

As of September 30, 2019 and through the date of this filing, notes payable with principal amounts totaling \$1,983,000 were past due and are classified as current liabilities on the condensed consolidated balance sheet as of September 30, 2019. Such notes continue to accrue interest and all relevant penalties have been accrued as of September 30, 2019. Of such past due notes payable, a holder of a note with principal amount of \$250,000 issued a notice of default. See Note 8, *Commitments and Contingencies – Litigation* for additional details. The Company is in negotiations with all holders of notes payable to extend the maturity dates of such notes or to convert the principal and accrued interest into equity.

As of September 30, 2019 and December 31, 2018, the Company had \$270,025 and \$302,974, respectively, of accrued interest and penalties related to notes payable, which is included with accrued interest and accrued interest – related parties on the condensed consolidated balance sheets.

#### Notes Payable

On March 31, 2019, holders of notes with aggregate principal amounts of \$400,000 and aggregate late payment penalties of \$40,000 exchanged those notes for 70,400 shares of the Company's Series A Convertible Preferred Stock. The value of the shares issued exceeded the carrying value of the debt and accrued interest and, as more fully discussed in Note 6, *Stockholders' Deficiency - Series A Convertible Preferred Stock*, this difference of \$88,000 was recorded in the condensed consolidated statement of operations as a loss on exchange of notes payable for Series A Convertible Preferred Stock.

On May 15, 2019, the Company issued a note payable in the principal amount of \$70,000. The note did not accrue interest and matured on May 25, 2019. The note was repaid in full on May 22, 2019. In connection with the note issuance, the Company issued a five-year immediately vested warrant for the purchase of 35,000 shares of common stock at \$0.75 per share. The warrant had an issuance date fair value of \$5,800, which was recorded as a debt discount and was amortized over the term of the note.

On July 29, 2019, the Company issued a note payable in the principal amount of \$50,000. The note does not accrue interest and matures on January 29, 2020. In connection with the note issuance, the Company issued to the noteholder a five-year immediately vested warrant for the purchase of 50,000 shares of common stock at \$0.75 per share. The warrant had an issuance date fair value of \$8,200, which was recorded as a debt discount and was amortized over the term of the note.

### ***Convertible Notes Payable***

On March 31, 2019, holders of notes with aggregate principal amounts of \$290,000 and aggregate accrued interest of \$97,784 exchanged those notes for 74,967 shares of the Company's Series A Convertible Preferred Stock. The value of the shares issued exceeded the carrying value of the debt and accrued interest and, as more fully discussed in Note 6, *Stockholders' Deficiency - Series A Convertible Preferred Stock*, this difference of \$174,470 was recorded in the condensed consolidated statements of operations as a loss on exchange of notes payable for Series A Convertible Preferred Stock.

On May 20, 2019, the Company issued a convertible note payable in the principal amount of \$103,000 for cash proceeds of \$100,000 which matures on November 20, 2019. The note accrues interest at 8% per annum, of which, twelve months of interest was guaranteed. The note also includes certain prepayment penalties that provide for payments ranging from 115% to 140% of the then outstanding principal and interest. The note is convertible at the option of the holder into common stock at either (i) \$0.75 per share or (ii) in the event of a default, at 75% of the volume-weighted average price in the ten consecutive trading days prior to the conversion date. The conversion option had an issuance date fair value of \$1,600 and, together with the original issuance discount of \$3,000, was recorded as a debt discount and was amortized to expense over the term of the note. In accordance with the Company's sequencing policy, this conversion option was determined to be a derivative liability. On June 27, 2019, a third-party repaid the note in full on behalf of the Company, which payment included a 20% prepayment penalty for an aggregate total payment of \$133,488, which has been recorded as accrued expenses on the Company's condensed consolidated balance sheet as of September 30, 2019. The Company determined the transaction was a note extinguishment and recorded a loss on extinguishment of debt of \$1,504 in the condensed consolidated statements of operations.

On July 2, 2019, the Company issued a convertible note payable in the principal amount of \$68,000. The note accrues interest at 12% per annum and matures on July 2, 2020 and any amount of principal or interest which is not paid at maturity shall accrue interest at 22% per annum. The note also includes certain prepayment penalties that provide for payments ranging from 115% to 140% of the then outstanding principal and interest. The note is convertible at the option of the holder into common stock at 61% of the lowest trading price during the ten consecutive trading days prior to the conversion date at any time during the period which is 180 days following the issuance date of the convertible note and ending on the later of (i) July 2, 2020 or (ii) in the event of default, the date of the payment of the default amount. The convertible note contained an original issuance discount of \$3,000 which was recorded as a debt discount and will be amortized to expense over the term of the note.

### **Note 6 – Stockholders' Deficiency**

#### ***Series A Convertible Preferred Stock***

The Board of Directors extended the expiration date of the Private Placement Memorandum ("PPM"), under which the Company continues to raise up to \$10,000,000 via the sale of up to 1,333,333 shares of Series A Convertible Preferred Stock at \$7.50 per share, on various dates in 2019, the latest of which occurred on September 26, 2019 when the Board of Directors further extended the expiration date of the PPM to November 29, 2019.

On March 31, 2019, in connection with the exchange of various notes payable, accrued interest and late payment penalties totaling \$827,784, the Company issued 145,367 shares of Series A Convertible Preferred Stock under the terms of the PPM with a total value of \$1,090,254, as more fully described in Note 5, *Notes Payable and Convertible Notes Payable*. As the value of those shares exceeded the carrying value of the note payable, accrued interest and late payment penalties, the difference of \$262,470 was recorded in the condensed consolidated statement of operations during the nine months ended September 30, 2019 as a loss on exchange of notes payable for Series A Convertible Preferred Stock.

On various dates from January 7, 2019 through August 20, 2019, the Company received proceeds of \$1,223,269 through the sale of 163,101 shares of Series A Convertible Preferred Stock at \$7.50 per share.

During the three and nine months ended September 30, 2019, the Company accrued and recorded Series A Preferred Stock dividends of \$197,911 and \$534,919, respectively, with an increase in liabilities and a corresponding decrease in additional paid-in capital. During the three and nine months ended September 30, 2018, the Company accrued and recorded Series A Preferred Stock dividends of \$110,666 and \$327,626, respectively, with an increase in liabilities and a corresponding decrease in additional paid-in capital.

During the nine months ended September 30, 2019, the Company issued 401,860 shares of common stock valued at \$0.75 per share for aggregate value of \$301,379, pursuant to the terms of the Series A Convertible Preferred Stock Certificate of Designation, in connection with the partial payment of accrued dividends for Series A Convertible Preferred Stock, as more fully described in the Series A Convertible Preferred Stock section of this footnote.

### ***Adoption of Equity Incentive Plan and Grant of Option***

On August 13, 2019, the Company's Board of Directors approved the adoption of the Company's 2019 Equity Incentive Plan (the "Plan"). A total of 7,900,000 shares of common stock are reserved for issuance under the Plan, which permits the Board of Directors to issue stock options, stock appreciation rights, restricted stock, restricted stock units, performance and other awards to employees, consultants and directors of the Company.

On the same date, the Board of Directors approved the grant under the Plan of ten-year stock options to purchase an aggregate of 3,782,004 shares of common stock at an exercise price of \$0.75 per share to a consultant to the Company. The 3,782,004 shares vest immediately on the date of grant. The stock options had a grant date value of \$825,100, which the Company recognized as expense on the date of the grant.

### ***Stock-Based Compensation***

During the three and nine months ended September 30, 2019, the Company recognized expense of \$848,005 and \$905,641, respectively, of stock-based compensation expense. During the three and nine months ended September 30, 2018, the Company did not recognize any stock-based compensation expense. As of September 30, 2019, there was no unrecognized stock-based compensation expense.

### ***Stock Warrants***

On June 25, 2019, the Company extended the expiration date of a warrant to purchase 1,600,000 shares of common stock at an exercise price of \$0.75 per share originally from June 27, 2019 to June 27, 2023.

On July 20, 2019, the Company extended the expiration dates of certain warrants to purchase an aggregate of 377,500 shares of common stock at an exercise price of \$0.75 per share from July 2019 to July 2023.

As a result of the above modifications, the Company recognized warrant modification expense of \$54,100 and \$283,500 during the three and nine months ended September 30, 2019, respectively.

### **Note 7 – Related Party Transactions**

In 2011, the Company entered into a Research and License Agreement (the "Agreement") with Yeda for Veto Cell technology. As Yeda is a founder and a significant shareholder of the Company, it is a related party.

During the three months ended September 30, 2019 and 2018, the Company recorded research and development expense of \$33,333 and \$72,527, respectively, and during the nine months ended September 30, 2019 and 2018, the Company recorded research and development expense of \$83,333 and \$375,151, respectively, in connection with the agreement with Yeda.

On January 7, 2019, the Company received proceeds of \$50,000 from the Chairman of the Board through the sale of 6,667 shares of Series A Convertible Preferred Stock at \$7.50 per share, which amount is included in the issuances disclosed in Note 6, *Stockholders' Deficiency*.

### **Note 8 – Commitments and Contingencies**

#### ***MD Anderson Agreements***

On February 19, 2019, the Company entered into an agreement, which was amended on April 4, 2019 and August 13, 2019, with The University of Texas M.D. Anderson Cancer Center ("MD Anderson") for the latter to perform cell production and conduct Phase I/II human clinical trials. In connection with that agreement, the Company committed to fund such work in the amount of approximately \$2,038,000 over a two-year period beginning that same date, with payments becoming due as certain specified milestones are met by MD Anderson.

The Company recognized \$249,171 and \$1,230,441 of research and development expenses during the three and nine months ended September 30, 2019, respectively, associated with services provided by MD Anderson in the periods, under the two agreements with MD Anderson dated November 2018 and February 2019. The Company did not recognize any expense pursuant to the agreements with MD Anderson for the three and nine months ended September 30, 2018. As of September 30, 2019, the Company had \$507,316 of accrued research and development expenses pursuant to the agreements with MD Anderson, which are included within accounts payable and accrued expenses on the condensed consolidated balance sheet.

### ***Litigation***

Certain conditions may exist as of the date the condensed consolidated financial statements are issued, which may result in a loss to the Company, but which will only be resolved when one or more future events occur or fail to occur. The Company assesses such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Company, or unasserted claims that may result in such proceedings, the Company evaluates the perceived merits of any legal proceedings or unasserted claims, as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in the Company's consolidated financial statements. If the assessment indicates that a potential material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability and an estimate of the range of possible losses, if determinable and material, would be disclosed.

In January 2019, the holder of a promissory note in the principal amount of \$250,000 due on March 16, 2016 instituted a collection action in the Supreme Court of the State of New York, County of New York. A motion for summary judgement was heard on July 12, 2019 and the Company did not oppose the motion. The Company has had discussion with respect to entering into an agreement providing for a payment plan with the holder of the note, but no agreement has yet been reached.

Loss contingencies considered remote are generally not disclosed, unless they involve guarantees, in which case the guarantees would be disclosed. There can be no assurance that such matters will not materially and adversely affect the Company's business, financial position, and results of operations or cash flows. As of September 30, 2019 and December 31, 2018, the Company has not accrued any amounts for contingencies.

### **Note 9 – Subsequent Events**

#### ***Series A Convertible Preferred Stock***

On various dates from October 3, 2019 through October 28, 2019, the Company received proceeds of \$329,505 through the sale of 43,937 shares of Series A Convertible Preferred Stock at \$7.50 per share.

#### ***Advance Payable***

On October 28, 2019, the Company received an advance of \$500,000 from an investor who indicated plans to enter into a convertible promissory note agreement that is anticipated to bear interest at a rate of 8% per annum.

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

*The following discussion and analysis of the condensed consolidated results of operations and financial condition of Cell Source, Inc. ("CSI", "Cell Source", the "Company", "us," "we," "our;") as of September 30, 2019 and for the three and nine months ended September 30, 2019 and 2018 should be read in conjunction with our unaudited financial statements and the notes thereto included elsewhere in this Quarterly Report on Form 10-Q and with our audited financial statements and the notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2018 as filed with the Securities and Exchange Commission ("SEC") on April 1, 2019.*

*This Quarterly Report contains forward-looking statements as that term is defined in the federal securities laws. The events described in forward-looking statements contained in this Quarterly Report may not occur. Generally, these statements relate to business plans or strategies, projected or anticipated benefits or other consequences of our plans or strategies, projected or anticipated benefits from acquisitions to be made by us, or projections involving anticipated revenues, earnings or other aspects of our operating results. The words "may," "will," "expect," "believe," "anticipate," "project," "plan," "intend," "estimate," and "continue," and their opposites and similar expressions, are intended to identify forward-looking statements. We caution you that these statements are not guarantees of future performance or events and are subject to a number of uncertainties, risks and other influences, many of which are beyond our control, which may influence the accuracy of the statements and the projections upon which the statements are based. Factors that may affect our results include, but are not limited to, the risks and uncertainties discussed in Item 1A ("Risk Factors") of our Annual Report on Form 10-K for the year ended December 31, 2018 filed with the SEC on April 1, 2019.*

### **Overview**

We are a biotechnology company focused on developing cell therapy treatments based on the management of immune tolerance. Our technology platform has been extensively tested by in vitro studies and confirmed in animal trials. MD Anderson has commenced a clinical trial using our Anti-Viral Veto Cell and is actively recruiting patients. The first patient has already been treated.

### **Consolidated Results of Operations**

#### **Three Months Ended September 30, 2019 Compared with the Three Months Ended September 30, 2018**

##### ***Research and Development***

Research and development expense was \$1,192,090 and \$128,986 for the three months ended September 30, 2019 and 2018, respectively, an increase of \$1,063,104, or 824%, primarily related to the commencement of research by MD Anderson and stock-based compensation expense.

##### ***Selling, General and Administrative***

Selling, general and administrative expense was \$244,609 and \$359,660 for the three months ended September 30, 2019 and 2018, respectively, a decrease of \$115,051, or 32%, primarily related to the expiration of a consulting agreement with a financial and marketing advisory firm in April 2019.

##### ***Change in Fair Value of Derivative Liabilities***

The change in fair value of derivative liabilities for the three months ended September 30, 2019 and 2018 was a gain of \$33,500 and a gain of \$115,500, respectively, primarily due to the warrants and conversion options, which are deemed to be derivative liabilities, either drawing closer to their expiration dates or were no longer outstanding.

##### ***Interest Expense***

Interest expense for the three months ended September 30, 2019 and 2018 was \$27,101 and \$31,679, respectively, a decrease of \$4,578, or 14%, primarily as a result of lower outstanding notes payable balances.

##### ***Amortization of Debt Discount***

Amortization of debt discount was \$3,566 and \$0 for the three months ended September 30, 2019 and 2018, respectively, which is associated with warrants, conversion options and original issue discounts issued in connection with notes payable.

#### ***Warrant Modification Expense***

During the three months ended September 30, 2019, we recognized \$54,100 of warrant modification expense related to the extension of the expiration date of certain warrants.

#### **Nine Months Ended September 30, 2019 Compared with the Nine Months Ended September 30, 2018**

#### ***Research and Development***

Research and development expense was \$2,352,602 and \$541,148 for the nine months ended September 30, 2019 and 2018, respectively, an increase of \$1,811,454, or 335%, primarily related to the commencement of research by MD Anderson and stock based compensation expense.

#### ***Selling, General and Administrative***

Selling, general and administrative expense was \$985,037 and \$1,031,517 for the nine months ended September 30, 2019 and 2018, respectively, a decrease of \$46,480, or 5%, primarily due to decreases in external consulting and professional fees.

#### ***Change in Fair Value of Derivative Liabilities***

The change in fair value of derivative liabilities for the nine months ended September 30, 2019 and 2018 was a gain of \$118,500 and a gain of \$390,400, respectively, primarily due to the warrants and conversion options, which are deemed to be derivative liabilities, either drawing closer to their expiration dates or were no longer outstanding.

#### ***Interest Expense***

Interest expense for the nine months ended September 30, 2019 and 2018 was \$161,179 and \$174,018, respectively, a decrease of \$12,839, or 7%.

#### ***Amortization of Debt Discount***

Amortization of debt discount was \$10,095 and \$201,455 for the nine months ended September 30, 2019 and 2018, respectively, a decrease of \$191,360, or 95%, which is primarily related to warrants, conversion options and original issuance discounts drawing closer to their expiration dates or which were no longer outstanding.

#### ***Warrant Modification Expense***

During the nine months ended September 30, 2019, we recognized \$283,500 of warrant modification expense on the extension of an expiration date of certain warrants.

#### ***Loss on Exchange of Notes Payable for Series A Convertible Preferred Stock***

During the nine months ended September 30, 2019, we recognized \$262,470 of loss on extinguishment of debt. The losses recognized represent the value of the preferred shares in excess of the carrying value of the notes payable.

#### ***Loss on Extinguishment of Debt***

During the nine months ended September 30, 2019, we recognized \$1,504 of loss on extinguishment of debt.

#### ***Gain on Forgiveness of Accrued Expenses***

During the nine months ended September 30, 2019, we recognized \$38,427 of gain on forgiveness of accrued expenses. The gain recognized represents the forgiveness of accrued payroll expenses and director fees due by a former member of the Board of Directors.



## Liquidity and Going Concern

We measure our liquidity in a number of ways, including the following:

|                            | <b>September 30,<br/>2019</b> | <b>December 31,<br/>2018</b> |
|----------------------------|-------------------------------|------------------------------|
|                            | <b>(unaudited)</b>            |                              |
| Cash                       | \$ 8,831                      | \$ 18,934                    |
| Working capital deficiency | \$ (5,914,548)                | \$ (4,920,171)               |

During the nine months ended September 30, 2019, we have not generated any revenues, had a net loss of approximately \$3,899,000 and had used cash in operations of approximately \$1,724,000. As of September 30, 2019, we had a working capital deficiency of approximately \$5,915,000 and an accumulated deficit of approximately \$20,570,000. Subsequent to September 30, 2019, the Company received proceeds of \$500,000 from an advance payable and aggregate proceeds of \$329,505 through the sale of 43,937 shares of Series A Convertible Preferred Stock at \$7.50 per share.

Our ability to continue our operations is dependent on the execution of management's plans, which include the raising of capital through the debt and/or equity markets, until such time that funds provided by operations are sufficient to fund working capital requirements. We may need to incur additional liabilities with certain related parties to sustain our existence. If we were not to continue as a going concern, we would likely not be able to realize our assets at values comparable to the carrying value or the fair value estimates reflected in the balances set out in the preparation of our financial statements.

There can be no assurances that we will be successful in generating additional cash from equity or debt financings or other sources to be used for operations. Should we not be successful in obtaining the necessary financing to fund our operations, we would need to curtail certain or all operational activities and/or contemplate the sale of our assets, if necessary.

During the nine months ended September 30, 2019 and 2018, our sources and uses of cash were as follows:

### *Net Cash Used in Operating Activities*

We experienced negative cash flows from operating activities for the nine months ended September 30, 2019 and 2018 in the amounts of \$1,723,872 and \$1,412,927, respectively. The net cash used in operating activities for the nine months ended September 30, 2019 was primarily due to cash used to fund a net loss of \$3,899,460, adjusted for net non-cash income in the aggregate amount of \$1,306,283, and by \$869,305 of net cash provided by changes in the levels of operating assets and liabilities. The net cash used in operating activities for the nine months ended September 30, 2018 was primarily due to cash used to fund a net loss of \$1,557,738, adjusted for net non-cash income in the aggregate amount of \$188,945, partially offset by \$333,756 of net cash provided by changes in the levels of operating assets and liabilities.

### *Net Cash Provided by Financing Activities*

Net cash provided by financing activities for the nine months ended September 30, 2019 and 2018 was \$1,713,769 and \$1,050,000, respectively. The net cash provided by financing activities during the nine months ended September 30, 2019 was attributable to \$1,223,269 of proceeds received from the issuance of Series A preferred stock, \$275,000 of proceeds from advances payable and \$215,000 of net proceeds from debt financings. The net cash provided by financing activities during the nine months ended September 30, 2018 was attributable to \$500,000 received from the issuance of notes payable, \$500,000 received from advances payable, and \$50,000 of received from the issuance of Series A preferred stock.

### **Off-Balance Sheet Arrangements**

We do not have any off-balance sheet arrangements.

### **Critical Accounting Policies and Estimates**

For a description of our critical accounting policies, see Note 3, *Summary of Significant Accounting Policies*, in Part 1, Item 1 of this Quarterly Report on Form 10-Q.

### **Item 3. Quantitative And Qualitative Disclosures About Market Risk.**

Not applicable.

**Item 4. Controls and Procedures.****Evaluation of Disclosure Controls and Procedures**

Disclosure controls are procedures that are designed with the objective of ensuring that information required to be disclosed in our reports filed under the Exchange Act, such as this Annual Report, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls are also designed with the objective of ensuring that such information is accumulated and communicated to our management, including the Principal Executive and Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Internal controls are procedures which are designed with the objective of providing reasonable assurance that (1) our transactions are properly authorized, recorded and reported; and (2) our assets are safeguarded against unauthorized or improper use, to permit the preparation of our condensed consolidated financial statements in conformity with United States generally accepted accounting principles.

In connection with the preparation of this Quarterly Report, management, with the participation of our Principal Executive and Financial Officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e) and 15d-15(e)). Based upon that evaluation, our Principal Executive and Financial Officer concluded that, as of September 30, 2019, our disclosure controls and procedures were effective.

**Changes in Internal Control over Financial Reporting**

There were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended September 30, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II – OTHER INFORMATION

### Item 1. Legal Proceedings.

Except as described below, we are not involved in any pending legal proceeding or litigations and, to the best of our knowledge, no governmental authority is contemplating any proceeding to which we are a party or to which any of our properties is subject, which would reasonably be likely to have a material adverse effect on us.

In January 2019, the holder of a promissory note in the principal amount of \$250,000 due on March 16, 2016 instituted a collection action in the Supreme Court of the State of New York, County of New York. A motion for summary judgement was heard on July 12, 2019 and the Company did not oppose the motion. The Company has had discussion with respect to entering into an agreement providing for a payment plan with the holder of the note, but no agreement has yet been reached.

### Item 1A. Risk Factors.

There have been no material changes to the risk factors discussed in Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2018, which was filed with the SEC on April 1, 2019.

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

On July 2, 2019, the Company issued a convertible promissory note in the principal amount of \$68,000. The note matures on July 2, 2020 and bears interest at a rate of 12% per annum. The holder has the right to convert the note into common stock any time beginning on the six month anniversary of the date of the note at a conversion price equal to 61% of the lowest market price of the common stock during the 10 trading day period prior to the conversion. The note contains a prepayment penalty of 115% of the principal amount if payment is made during the 30 days following the date of issuance which increases by five percent (5%) during each 30-day period thereafter until the maturity date. The Company relied upon the exemption provided by Section 4(2) of the Securities Act of 1933 as amended (the "Securities Act") in connection with this transaction.

On July 29, 2019, the Company issued a five-year warrant to purchase 50,000 shares of common stock having an exercise price of \$0.75 per share to the purchaser of a note in the principal amount of \$50,000. The Company relied upon the exemption provided by Section 4(2) of the Securities Act in connection with this transaction.

The Company sold a total of 13,333 shares of Series A Preferred Stock to accredited investors at a purchase price of \$7.50 per share during the three months ended September 30, 2019. The Company relied upon the exemption provided by Section 4(2) of the Securities Act in connection with these transactions.

On August 13, 2019, the Company granted an option to purchase 3,782,004 shares of common stock at an exercise price of \$0.75 per share to a consultant to the Company. The Company relied upon the exemption provided by Rule 701 of the Securities Act in connection with this transaction.

The Company sold a total of 43,937 shares of Series A Preferred Stock to accredited investors at a purchase price of \$7.50 per share during October 2019. The Company relied upon the exemption provided by Rule 506 and Section 4(2) of the Securities Act in connection with these transactions.

### Item 3. Defaults Upon Senior Securities.

As of September 30, 2019 and through the date of this filing, notes payable and convertible notes payable with face values totaling \$1,983,000 were past due and are classified as current liabilities on the condensed consolidated balance sheet as of September 30, 2019. Such notes continue to accrue interest and all relevant penalties have been accrued as of September 30, 2019. Of such past due notes payable, a holder of a note with principal amount of \$250,000 issued a notice of default. See Item 1 above for additional details. We are in negotiations with all holders to extend the maturity dates of such notes or to convert the principal and accrued interest into equity.

### Item 4. Mine Safety Disclosures.

Not applicable.

### Item 5. Other Information.

In August 2019, MD Anderson commenced a clinical trial using the Company's Anti-Viral Veto Cell and is actively recruiting patients. The first patient has already been treated.

**Item 6. Exhibits.**

31 Certification of principal executive and principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32 Certification of principal executive and principal financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

101.INS XBRL Instance Document

101.SCH XBRL Schema Document

101.CAL XBRL Calculation Linkbase Document

101.DEF XBRL Definition Linkbase Document

101.LAB XBRL Label Linkbase Document

101.PRE XBRL Presentation Linkbase Document

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

**CELL SOURCE, INC.**

Dated: November 14, 2019

By: /s/ Itamar Shimrat  
Name: Itamar Shimrat  
Title: Chief Executive Officer and  
Chief Financial Officer (Principal  
Executive, Financial and Accounting  
Officer)

**CERTIFICATION OF  
CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER  
PURSUANT TO SECTION 302 OF THE  
SARBANES-OXLEY ACT OF 2002**

I, Itamar Shimrat, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Cell Source, Inc.;
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.

Dated: November 14, 2019

/s/ Itamar Shimrat

Itamar Shimrat  
Chief Executive Officer and Chief Financial Officer  
(Principal Executive, Financial, and Accounting Officer)

**CERTIFICATION OF  
CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER  
PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED  
PURSUANT TO SECTION 906 OF THE  
SARBANES-OXLEY ACT OF 2002**

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), each of the undersigned officers of Cell Source, Inc., a Nevada corporation (the "Company"), does hereby certify, to such officer's knowledge, that:

The Quarterly Report for the quarter ended September 30, 2019 (the "Form 10-Q") of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 14, 2019

/s/ Itamar Shimrat

Itamar Shimrat

Chief Executive Officer and Chief Financial Officer

(Principal Executive, Financial, and Accounting Officer)