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

FORM 10-Q

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

For the quarterly period ended **June 30, 2023**

☐ 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	**32-0379665**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

57 West 57th Street, Suite 400
New York, NY 10019
(Address of principal executive offices)

(646) 416-7896
(Issuer's telephone number)

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

Title of each class	Trading symbol(s)	Name of each exchange on which registered
None	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 ☐	Accelerated filer ☐
Non-accelerated filer ☒	Smaller reporting company ☒
	Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any news 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 September 15, 2023, the registrant had 38,195,617 shares of $0.001 par value common stock outstanding.

CELL SOURCE, INC.

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2023

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

CELL SOURCE, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2023 (Unaudited)	December 31, 2022
Assets		
Current Assets:		
Cash	$ 21,993	$ 222,665
Prepaid expenses	324,000	164,175
Other current assets	16,336	23,005
Total Assets	$ 362,329	$ 409,845
Liabilities and Stockholders' Deficiency		
Current Liabilities:		
Accounts payable	$ 927,800	$ 680,325
Accrued expenses	1,226,833	1,485,857
Accrued expenses - related party	115,500	86,500
Accrued interest	883,737	809,426
Accrued interest - related parties	1,283,992	987,310
Accrued compensation	855,788	849,898
Notes payable, net of debt discount of $0 and $12,968 as of June 30, 2023 and December 31, 2022, respectively	681,093	768,126
Notes payable - related parties	150,000	150,000
Convertible notes payable, net of debt discount of $40,010 and $41,650 as of June 30, 2023 and December 31, 2022, respectively	1,654,910	908,311
Convertible notes payable - related parties, net of debt discount of $17,562 and $147,230 as of June 30, 2023 and December 31, 2022, respectively	6,970,456	6,077,770
Financing liability	321,500	-
Advances payable	135,000	135,000
Advances payable - related party	100,000	100,000
Accrued dividend payable	1,479	5,217
Total Liabilities	15,308,088	13,043,740
Commitments and contingencies (Note 8)		
Stockholders' Deficiency:		
Preferred stock, $0.001 par value, 10,000,000 shares authorized		
Series A Convertible Preferred Stock, 1,350,000 shares designated, 1,342,195 shares issued and outstanding as of June 30, 2023 and December 31, 2022; liquidation preference of $10,066,463 as of June 30, 2023 and December 31, 2022	1,342	1,342
Series C Convertible Preferred Stock, 1,000,000 shares designated, 499,443 and 502,776 shares issued and outstanding as of June 30, 2023 and December 31, 2022, respectively; liquidation preference of $3,747,305 and $3,776,039 as of June 30, 2023 and December 31, 2022, respectively	500	503
Common stock, $0.001 par value, 200,000,000 shares authorized; 38,163,385 and 36,081,758 shares issued and outstanding as of June 30, 2023 and December 31, 2022, respectively	38,163	36,082
Additional paid-in capital	24,293,583	23,674,354
Accumulated deficit	(39,279,347)	(36,346,176)
Total Stockholders' Deficiency	(14,945,759)	(12,633,895)
Total Liabilities and Stockholders' Deficiency	$ 362,329	$ 409,845

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

CELL SOURCE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2023	**2022**	**2023**	**2022**
Operating Expenses:				
Research and development	$ 351,088	$ 555,010	$ 675,088	$ 1,019,515
Research and development - related party	14,500	14,500	29,000	29,000
General and administrative	539,877	464,367	1,616,926	1,038,034
Total Operating Expenses	905,465	1,033,877	2,321,014	2,086,549
Loss From Operations	(905,465)	(1,033,877)	(2,321,014)	(2,086,549)
Other (Expense) Income:				
Interest expense	(56,535)	(63,313)	(76,474)	(111,725)
Interest expense - related parties	(180,747)	(130,049)	(296,578)	(248,402)
Amortization of debt discount	(41,854)	(23,151)	(77,575)	(89,688)
Amortization of debt discount - related party	(98,923)	(35,204)	(203,450)	(41,805)
Gain on extinguishment of note payable	41,920	-	41,920	-
Total Other Expense	(336,139)	(251,717)	(612,157)	(491,620)
Net Loss	(1,241,604)	(1,285,594)	(2,933,171)	(2,578,169)
Dividend attributable to Series A and Series C preferred stockholders	(300,849)	(244,971)	(598,366)	(569,888)
Net Loss Applicable to Common Stockholders	$ (1,542,453)	$ (1,530,565)	$ (3,531,537)	$ (3,148,057)
Net Loss Per Common Share - Basic and Diluted	$ (0.04)	$ (0.04)	$ (0.10)	$ (0.09)
Weighted Average Common Shares Outstanding - Basic and Diluted	37,213,515	34,438,057	37,137,064	34,419,213

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

CELL SOURCE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' DEFICIENCY

(Unaudited)

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2023

	Convertible Preferred Stock - Series A		Convertible Preferred Stock - Series C		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Deficiency
	Shares	Amount	Shares	Amount	Shares	Amount			
Balance, January 1, 2023	1,342,195	$ 1,342	502,776	$ 503	36,081,758	$ 36,082	$23,674,354	$ (36,346,176)	$ (12,633,895)
Conversion of convertible notes payable and accrued interest into Series C Convertible Preferred Stock and common stock	-	-	6,667	7	2,747	3	52,050	-	52,060
Series A and Series C Convertible Preferred Stock dividends:									
Accrual of earned dividends	-	-	-	-	-	-	(297,517)	-	(297,517)
Issuance of warrants in connection with issuance of convertible notes payable	-	-	-	-	-	-	21,202	-	21,202
Conversion of Series C Convertible Preferred Stock into common stock	-	-	(10,000)	(10)	100,000	100	(90)	-	-
Stock-based compensation:									
Common stock	-	-	-	-	1,000,000	1,000	329,000	-	330,000
Net loss	-	-	-	-	-	-	-	(1,691,567)	(1,691,567)
Balance, March 31, 2023	1,342,195	$ 1,342	499,443	$ 500	37,184,505	$ 37,185	$23,778,999	$ (38,037,743)	$ (14,219,717)
Series A and Series C Convertible Preferred Stock dividends:									
Accrual of earned dividends	-	-	-	-	-	-	(300,849)	-	(300,849)
Payment of dividends in kind	-	-	-	-	802,880	802	601,300	-	602,102
Issuance of common stock in connection with extinguishment of note payable	-	-	-	-	176,000	176	57,904	-	58,080
Issuance of warrants in connection with:									
Satisfaction of accrued interest	-	-	-	-	-	-	40,167	-	40,167
Issuance of convertible notes payable	-	-	-	-	-	-	75,462	-	75,462
Stock-based compensation:									
Warrants	-	-	-	-	-	-	40,600	-	40,600
Net loss	-	-	-	-	-	-	-	(1,241,604)	(1,241,604)
Balance, June 30, 2023	1,342,195	$ 1,342	499,443	$ 500	38,163,385	$ 38,163	$24,293,583	$ (39,279,347)	$ (14,945,759)

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2022

	Convertible Preferred Stock - Series A		Convertible Preferred Stock - Series C		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Deficiency
	Shares	Amount	Shares	Amount	Shares	Amount	Capital	Deficit	Deficiency
Balance, January 1, 2022	1,342,195	$ 1,342	272,021	$ 272	34,360,546	$ 34,361	$21,316,318	$ (31,178,428)	$ (9,826,135)
Conversion of convertible notes payable and accrued interest into Series C Convertible Preferred Stock and common stock	-	-	183,422	183	76,530	76	1,432,836	-	1,433,095
Series A and Series C Convertible Preferred Stock dividends:									
Accrual of earned dividends	-	-	-	-	-	-	(324,917)	-	(324,917)
Issuance of warrants in connection with issuance of convertible notes payable	-	-	-	-	-	-	8,043	-	8,043
Stock-based compensation:									
Warrants	-	-	-	-	-	-	5,372	-	5,372
Net loss	-	-	-	-	-	-	-	(1,292,575)	(1,292,575)
Balance, March 31, 2022	1,342,195	$ 1,342	455,443	$ 455	34,437,076	$ 34,437	$22,437,652	$ (32,471,003)	$ (9,997,117)
Conversion of convertible notes payable and accrued interest into Series C Convertible Preferred Stock and common stock	-	-	14,666	15	5,964	6	114,452	-	114,473
Series A and Series C Convertible Preferred Stock dividends:									
Accrual of earned dividends	-	-	-	-	-	-	(244,971)	-	(244,971)
Payment of dividends in kind	-	-	-	-	796,629	797	596,634	-	597,431
Issuance of warrants in connection with issuance of convertible notes payable and notes payable	-	-	-	-	-	-	49,219	-	49,219
Net loss	-	-	-	-	-	-	-	(1,285,594)	(1,285,594)
Balance, June 30, 2022	1,342,195	$ 1,342	470,109	$ 470	35,239,669	$ 35,240	$22,952,986	$ (33,756,597)	$ (10,766,559)

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

CELL SOURCE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	For Six Months Ended June 30, 2023	2022
Cash Flows From Operating Activities:		
Net loss	$ (2,933,171)	$ (2,578,169)
Adjustments to reconcile net loss to net cash used in operating activities:		
Gain on extinguishment of note payable	(41,920)	-
Amortization of debt discount	281,025	131,493
Non-cash interest expense - warrants	(18,859)	63,267
Stock-based compensation:		
Warrants	39,578	5,034
Common stock	339,438	-
Changes in operating assets and liabilities:		
Prepaid expenses	161,675	177,839
Other current assets	6,669	790
Accounts payable	247,475	158,968
Accrued expenses	153,994	403,916
Accrued expenses - related parties	29,000	-
Accrued interest	82,279	(44,729)
Accrued interest - related parties	309,711	320,361
Accrued compensation	(2,526)	32,476
Net Cash Used In Operating Activities	(1,345,632)	(1,328,754)
Cash Flows From Financing Activities:		
Proceeds from issuance of convertible notes payable	794,960	245,000
Proceeds from issuance of convertible notes payable - related party	350,000	1,000,000
Proceeds from issuance of notes payable	-	168,094
Repayment of notes payable	-	(146,912)
Repayment of financing liability	-	(27,926)
Net Cash Provided By Financing Activities	1,144,960	1,238,256
Net Decrease In Cash	(200,672)	(90,498)
Cash - Beginning of Period	222,665	93,095
Cash - End of Period	$ 21,993	$ 2,597
Supplemental Disclosures of Cash Flow Information:		
Cash paid for:		
Interest	$ -	$ -
Income taxes	$ 949	$ -
Non-cash investing and financing activities:		
Accrual of earned preferred stock dividends	$ (598,366)	$ (569,888)
Common stock issued in connection with payment of Series A Convertible Preferred Stock dividends in-kind	$ 602,102	$ 597,431
Financing of Directors and Officer's insurance	$ 321,500	$ -
Conversion of accrued expenses into note principal	$ 413,018	$ -
Accrual of warrant obligations in connection with issuance of notes payable	$ 40,167	$ 114,727
Warrants issued in satisfaction of accrued warrant obligation	$ (40,167)	$ -
Issuance of warrants in connection with the issuance of notes payable	$ 96,664	$ 57,262
Conversion of convertible notes payable and accrued interest into Series C Preferred Stock and common stock	$ 52,060	$ 1,547,568
Extinguishment of note payable for common stock	$ 58,080	$ -

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

CELL SOURCE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1 - Business Organization, Nature of Operations, Risks and Uncertainties 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 8, *Commitments and Contingencies*). 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 June 30, 2023 and the condensed consolidated results of its operations and cash flows for the three and six months ended June 30, 2023 and 2022. The results of operations for the three and six months ended June 30, 2023 are not necessarily indicative of the operating results for the full year ending December 31, 2023 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, 2022 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 August 8, 2023.

Note 2 - Going Concern and Management Plans

During the six months ended June 30, 2023, the Company had not generated any revenues, had a net loss of approximately $2,933,000 and had used cash in operations of approximately $1,346,000. As of June 30, 2023, the Company had a working capital deficiency of approximately $14,946,000 and an accumulated deficit of approximately $39,279,000. As of June 30, 2023 and through the date of this filing, notes payable with principal amounts totaling approximately $1,956,000 and $5,196,000, respectively, were past due and are classified as current liabilities on the condensed consolidated balance sheet as of June 30, 2023. The Company will continue to incur net operating losses to fund operations. These conditions raise substantial doubt about the Company's ability to continue as a going concern for at least one year from the date these financial statements are issued. Subsequent to June 30, 2023 and as more fully described in Note 9, *Subsequent Events*, the Company received aggregate proceeds of approximately $452,000 from the issuance of notes and convertible notes payable.

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 sources of operating funds since inception have 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 these uncertainties.

Note 3 - Summary of Significant Accounting Policies

Since the date of the Annual Report on Form 10-K for the year ended December 31, 2022, there have been no material changes to the Company's significant accounting policies, except as disclosed herein.

Loss Per Share

The Company computes basic net loss per share by dividing net loss applicable to common stockholders 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.

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

	June 30, 2023	June 30, 2022
Options	6,932,004	6,182,004
Warrants	13,404,493	12,284,079
Convertible notes [1] [2]	4,153,234	1,951,241
Convertible preferred stock	18,416,383	18,123,043
Total	42,906,114	38,540,367

[1] Convertible notes are assumed to be converted at the rate of $0.75 per common share, which is the conversion price as of June 30, 2023 and 2022. However, such conversion rates are subject to adjustment under certain circumstances such as stock splits and stock dividends, which may result in the issuance of common shares greater than the amount indicated.

[2] Excludes shares of common stock underlying convertible notes that are expected to become convertible into shares of Series B Convertible Preferred Stock since such stock had not been designated by the Company as of June 30, 2023 and 2022 and, as a result, the notes were not able to be converted as of such date. The approval of designation of the Series B Convertible Preferred Stock is at the discretion of the Company's Board of Directors.

Note 4 - Fair Value

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 three and six months ended June 30, 2023 and 2022:

	Accrued Interest	Accrued Compensation	Total
Balance - January 1, 2023	$ 504,700	$ 59,220	$ 563,920
Accrual of warrant obligation	40,167	-	40,167
Change in fair value	(46,131)	(1,095)	(47,226)
Balance - March 31, 2023	498,736	58,125	556,861
Accrual of common stock obligation	-	9,438	9,438
Issuance of warrants	(40,167)	-	(40,167)
Change in fair value	27,272	73	27,345
Balance - June 30, 2023	$ 485,841	$ 67,636	$ 553,477

	Accrued Interest	Accrued Compensation	Total
Balance - January 1, 2022	$ 402,344	$ 61,306	$ 463,650
Change in fair value	33,609	(412)	33,197

Accrual of warrant obligation	114,727	-	114,727
Balance - March 31, 2022	550,680	60,894	611,574
Change in fair value	29,658	74	29,732
Balance - June 30, 2022	$ 580,338	$ 60,968	$ 641,306

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 accrued obligations to issue warrants and common stock to non-employees and is recorded at fair value at inception and subsequent changes in fair value are charged to the condensed consolidated statement of operations at each reporting period.

In applying the Black-Scholes option pricing model utilized in the valuation of Level 3 liabilities, the Company used the following approximate assumptions:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2023	2022	2023	2022
Risk-free interest rate	4.13% - 4.31%	3.00% - 3.01%	3.60% - 4.31%	2.42% - 3.01%
Expected term (years)	4.00-5.00	4.00-5.00	4.00-5.00	4.00-5.00
Expected volatility	80%	90%	80%	90%
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 does not have significant trading 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.

As of June 30, 2023 and December 31, 2022, the Company had an obligation to issue 183,095 and 154,495 shares of common stock, respectively, to service providers that had a fair value of $60,421 and $50,983, respectively, which was a component of accrued compensation on the condensed consolidated balance sheets. The fair value of the common stock underlying this obligation has a per share value of $0.33 as of June 30, 2023 and December 31, 2022.

See Note 6, *Stockholders' Deficiency – Common Stock and Stock Warrants* for additional details associated with the issuance of common stock and warrants.

Note 5 – Notes Payable

As of June 30, 2023 and through the date of this filing, notes and convertible notes payable with principal amounts totaling $1,956,093 and $5,196,129, respectively, were past due and are classified as current liabilities on the condensed consolidated balance sheet as of June 30, 2023. Such notes continue to accrue interest and all relevant penalties have been accrued as of June 30, 2023. 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 certain holders of notes payable to extend the maturity dates of such notes or to convert the principal and accrued interest into equity. As of June 30, 2023, the Company had an accrued interest balance of $243,391 related to notes past due.

During the three months ended June 30, 2023 and 2022, the Company recorded interest expense of $237,282 and $193,362, respectively, and amortization of debt discount of $140,777 and $58,355, respectively. During the six months ended June 30, 2023 and 2022, the Company recorded interest expense of $373,052 and $360,127, respectively, and amortization of debt discount of $281,025 and $131,493, respectively. As of June 30, 2023 and December 31, 2022, the Company had $2,167,729 and $1,796,736, respectively, of accrued interest (including interest in the form of warrants (see Note 4, *Fair Value*) 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 June 12, 2023, the Company issued 176,000 shares of common stock to the holder of a promissory note in the principal amount of $100,000 that matured in May 2018 in exchange for the cancellation of the note. The exchange was accounted for as debt extinguishment and the Company recorded a gain on extinguishment of $41,920 which is included in other income on the condensed consolidated statement of operations for the three months ended June 30, 2023.

Convertible Notes Payable

During the six months ended June 30, 2023, the Company issued convertible notes payable in the aggregate principal amount of $394,960 with maturity dates ranging from July 3, 2023 to November 8, 2023. The notes accrue interest at 8% per annum and are convertible at any time at the option of the holder into the Company's Series C Convertible Preferred Stock at a conversion price of $7.50 per share. The notes automatically convert into Series C Convertible Preferred Stock on the maturity date. In connection with the issuances, the Company issued five-year immediately vested warrants to purchase 316,000 shares of common stock at an exercise price of $1.25 per share. The warrants had an issuance date relative fair value of $37,993 which was recorded as a discount to the face value of the notes and will be amortized over the term of the notes.

During the six months ended June 30, 2023, the Company issued convertible notes payable in the aggregate principal amount of $400,000 with maturity dates ranging from November 8, 2023 to December 26, 2023. The notes accrue 8% interest per annum and are convertible at any time at the option of the holder into the Company's common stock at a conversion price of $0.75 per share. In connection with the issuances, the Company issued five-year immediately vested warrants to purchase an aggregate of 200,000 shares of common stock at an exercise price of $1.25 per share. The warrants had an issuance date relative fair value of $25,057 which was recorded as a discount to the face value of the notes and will be amortized over the term of the notes. These notes are guaranteed by a director of the Company.

During the six months ended June 30, 2023, $50,000 of principal outstanding under a convertible note was automatically converted into 6,667 shares of Series C Convertible Preferred Stock and the Company elected to convert $2,060 of interest accrued under such note into 2,747 shares of common stock. The note principal had a conversion price of $7.50 per share and the common stock was valued at $0.75 per share for purposes of the interest payment.

Convertible Notes Payable - Related Parties

The Company and George Verstraete, a director of the Company, entered into a promissory note agreement dated March 10, 2022 (the "Verstraete Note"), whereby Mr. Verstraete, at his discretion, can loan up to $6,000,000 to the Company. Mr. Verstraete has agreed to loan an aggregate of $2,500,000 to the Company under the note. The note bears interest at a rate of 10% per annum and will mature twelve months from the date of issuance. Mr. Verstraete has the right, at his option, to convert the note into shares of the Company's Series B Convertible Preferred Stock at a conversion price of $7.50 per share at any time after the Company first issues any shares of the Series B Convertible Preferred Stock. Interest accruing under the note will be payable upon the maturity of the note and may be paid at the Company's option in either cash or shares of the Company's common stock (calculated based upon $0.75 per share for purposes of calculating the number of shares of common stock to be issued). For each $500,000 advanced under the Verstraete Note, Mr. Verstraete will be issued a warrant to purchase 400,000 shares of the Company's common stock at an exercise price of $1.25 per share. Each warrant will have a five-year term.

In February 2023, $413,018 of payments made by Mr. Verstraete to third parties on behalf of the Company in June 2022 were characterized as convertible notes payable – related parties under the Verstraete Note. The Company received additional advances of $250,000 and $100,000 in April 2023 and May 2023, respectively, and, as a result, increased the outstanding principal balance of the Verstraete Note to $3,263,018 as of June 30, 2023. See Note 9, *Subsequent Events* for details of additional advances under the Verstraete Note subsequent to June 30, 2023. In connection with the advances, the Company issued five-year immediately vested warrants to purchase an aggregate of 610,414 shares of common stock at an exercise price of $1.25 per share. The warrants had an issuance date relative fair value of $73,780 which was recorded as a discount to the face value of the note and will be amortized over the terms of the note.

Mr. Verstraete has assigned the Verstraete Note to a trust for which Darlene Soave, a director of the Company, serves as trustee. On March 10, 2023, the Company and the trust agreed to extend the maturity date of the Verstraete Note to September 10, 2023.

On April 28, 2023, the Company agreed to extend the maturity date of the promissory note issued to Darlene Soave, with a principal balance of $3,500,000 from April 28, 2023 to October 28, 2023.

Note 6 – Stockholders' Deficiency

Authorized Capital

As of June 30, 2023, the Company was authorized to issue 200,000,000 shares of common stock, par value of $0.001 per share, and 10,000,000 shares of preferred stock, par value of $0.001 per share. The holders of the Company's common stock are entitled to one vote per share. The preferred stock was designated as 1,335,000 shares of Series A Convertible Preferred Stock and 500,000 shares of Series C Convertible Preferred Stock. See Note 9, *Subsequent Events - Increase in Authorized Shares* for details of increases in the number of shares designated subsequent to June 30, 2023.

Preferred Stock Dividends

During the three months ended June 30, 2023 and 2022, the Company accrued additional preferred dividends of $300,849 and $244,971, respectively. During the six months ended June 30, 2023 and 2022, the Company accrued additional preferred dividends of $598,366 and $569,888, respectively. As of June 30, 2023 and December 31, 2022, there were accrued preferred stock dividends of $1,479 and $5,217, respectively.

During the three months ended June 30, 2023, the Company issued 802,880 shares of common stock at the stated value of $0.75 per share for aggregate value of $602,102, pursuant to the terms of the Series A and C Convertible Preferred Stock Certificate of Designation, in connection with the partial payment of accrued dividends for Series A and Series C Convertible Preferred Stock.

Series C Convertible Preferred Stock

See Note 5, *Notes Payable – Convertible Notes Payable* for details associated with conversions of notes payable into 6,667 shares of Series C Convertible Preferred Stock.

Common Stock

See Note 5, *Notes Payable – Convertible Notes Payable* for details associated with conversions of accrued interest into 2,747 shares of common stock.

During the six months ended June 30, 2023, a certain investor converted 10,000 shares of Series C Convertible Preferred Stock into 100,000 shares of the Company’s common stock.

During the six months ended June 30, 2023, the Company issued 1,000,000 immediately-vested shares of the Company's common stock to a consultant with a grant date fair value of $330,000 which was immediately recognized in the condensed consolidated statement of operations.

See Note 5, *Notes Payable* for details associated with the issuance of 176,000 shares of common stock in connection with the extinguishment of a note payable.

Stock Warrants

On May 25, 2023, the Company issued immediately vested 3.75 year warrants to an investor to purchase an aggregate amount of 300,000 shares of the Company's common stock at an exercise price of $0.75 per share. The warrants had an issuance date fair value of $40,600, which was recognized immediately.

See Note 5, *Notes Payable* for additional details associated with the issuance of stock warrants.

Stock-Based Compensation

During the three months ended June 30, 2023, the Company recognized stock-based compensation expense of $50,111 (consisting of $40,673 of expense related to warrants (of which, $40,600 was included within stockholder's deficiency and $73 was included within accrued compensation) and $9,438 of expense related to common stock to be issued for consulting services described above, which has been included within accrued compensation on the balance sheet and included within general and administrative expenses on the statement of operations. During the three months ended June 30, 2022, the Company recognized stock-based compensation expense of $(74) related to common stock which has been included within accrued compensation which was included within general and administrative expenses.

During the six months ended June 30, 2023, the Company recognized stock-based compensation expense of $379,016 (consisting of $39,578 of expense related to warrants (of which, $40,600 was included within stockholder's deficiency and $(1,022) was included within accrued compensation and $339,438 of expense related to common stock issued or to be issued for consulting services described above (of which, $330,000 has been included within stockholder's deficiency and $9,438 has been included within accrued compensation) which was included within general and administrative expenses. During the six months ended June 30, 2022, the Company recognized stock-based compensation expense of $5,034 (consisting of $5,372 of expense related to warrants and $(338) of expense related to common stock which has been included within accrued compensation) which was included within general and administrative expenses.

There was no unrecognized stock-based compensation expense as of June 30, 2023.

Note 7 – Related Party Transactions

As of June 30, 2023 and December 31, 2022, the Company was required to issue warrants to purchase an aggregate of 1,806,500 and 1,656,500, respectively, shares of common stock at an exercise price of $0.75 per share to a director and former director of the Company in connection with loans made to the Company in the aggregate amount of $459,000 which required certain penalties in the form of warrants. As a result, the Company had accrued $295,087 and $308,117 associated with the fair value of the obligations as of June 30, 2023 and December 31, 2022, respectively, which amount is included in accrued interest – related parties on the condensed consolidated balance sheets. The obligations to issue warrants are subject to changes in fair value at each reporting period. See Note 4, Fair Value for additional details.

See Note 5, *Notes Payable – Convertible Notes Payable – Related Parties* for details of the issuance of a convertible note to a director of the Company.

Note 8 – Commitments and Contingencies

Yeda Research and License Agreement

During the three months ended June 30, 2023 and 2022, the Company recorded research and development expenses of $14,500, related to its Research and License Agreement with Yeda (the "Agreement"). During the six months ended June 30, 2023 and 2022, the Company recorded research and development expenses of $29,000, related to the Agreement with Yeda. As of June 30, 2023 and December 31, 2022, the Company had $43,500 and $14,500, respectively, of accrued research and development expenses pursuant to the Agreement with Yeda.

MD Anderson Sponsored Research Agreements

The Company recognized $328,688 and $429,505 of research and development expenses during the three months ended June 30, 2023 and 2022, respectively, and $652,688 and $964,515 of research and development expenses during the six months ended June 30, 2023 and 2022, respectively, associated with services provided by The University of Texas M.D. Anderson Cancer Center ("MD Anderson") under the two agreements with MD Anderson dated November 2018 and February 2019, respectively. As of June 30, 2023 and December 31, 2022, the Company had $316,516 of accrued research and development expenses pursuant to the agreements with MD Anderson.

Litigation

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. On June 12, 2019, the plaintiff served a motion for summary judgment through the Secretary of State which was heard on July 12, 2019 and granted. The Company contended that it was not given sufficient notice under the applicable statute and did not have an opportunity to oppose the motion. Judgment was entered in October 2019 in the amount of $267,680. The Company brought a motion to vacate based on the jurisdictional defect of the motion in not providing the required amount of time, but that motion was denied in February 2021 without properly addressing the jurisdictional issues raised by the Company. The Company appealed the denial and then filed a motion to Renew and Reargue the motion to vacate based on the Court's failure to address critical issues. That motion was also denied on April 15, 2021 without addressing the Company's arguments. The Company appealed the second denial as well and pursued both appeals in a consolidated manner so as to resolve all issues together. Each of the appeals was denied and there is no further opportunity to appeal. While the Company's motions were pending, the plaintiff commenced steps to collect judgment. During the year ended December 31, 2021, $103,088 of a $250,000 deposit made with the court by a third party on behalf of the Company was released to an officer of the court and has been accounted for as partial note repayment, with an additional $146,912 due under the note repaid by a release of the remaining deposit to an officer of the court during the year ended December 31, 2022, which was also accounted for as a note repayment. In August 2023, a supplemental judgment of $38,838 was entered against the Company. Inasmuch as there are no further opportunities to appeal, the Company is arranging to pay the remaining amount due, which, as of the date of this Report, is estimated to be approximately $106,000, which was recorded as a liability as of June 30, 2023.

In August 2022, a holder of 360,000 shares of the Company's common stock filed a complaint against the Company, its President and legal counsel in the United States District Court, Southern District of New York, claiming unspecified damages for an alleged wrongful refusal to authorize the Company's transfer agent to remove restrictive legends from the shares held by the shareholder. The Company has filed a motion to dismiss the complaint which is pending, as is a mediation being conducted in an effort to resolve this matter. The complaints against the Company's legal counsel and President were dismissed by the Court.

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. Aside from the matters discussed elsewhere in this note, there are no other known contingencies through the date of this filing.

Note 9 – Subsequent Events

The Company has evaluated events that have occurred after the balance sheet and through the date the financial statements were issued. Based upon the evaluation, the Company did not identify any recognized or non-recognized subsequent events that would have required adjustment or disclosure in the financial statements, except as disclosed below.

Convertible Notes Payable

<u>Issuances</u>

Subsequent to June 30, 2023, the Company issued a convertible note payable in the principal amount of $100,000 which has a maturity date of February 17, 2024. The note accrues interest at 8% per annum and is convertible at any time at the option of the holder into the Company's Series C Convertible Preferred Stock at a conversion price of $7.50 per share. The note automatically converts into Series C Convertible Preferred Stock on the maturity date. In connection with the issuance, the Company issued five-year immediately vested warrants to purchase 80,000 shares of common stock at an exercise price of $1.25 per share.

Subsequent to June 30, 2023, the Company issued a convertible note payable in the principal amount of $25,000 which has a maturity date of July 28, 2024. The note accrues interest at 8% per annum and is convertible at any time at the option of the holder into the Company's common stock at a conversion price of $0.75 per share. In connection with the issuance, the Company issued five-year immediately vested warrants to purchase 12,500 shares of common stock at an exercise price of $1.25 per share.

<u>Conversions</u>

Subsequent to June 30, 2023, certain investors converted convertible notes payable with aggregate principal amount of $469,960 and aggregate accrued interest of $24,174 into an aggregate of 62,667 shares of Series C Convertible Preferred Stock and 32,232 shares of common stock.

Convertible Notes Payable - Related Parties

<u>Issuances</u>

The Company received additional advances under the Verstraete Note of $150,000, $72,018 and 105,000 in July 2023, August 2023 and September 2023, respectively, which increased the outstanding principal balance to $3,590,036 under the Verstraete Note as of the date of filing. In connection with the advances, the Company issued five-year immediately vested warrants to purchase an aggregate of 177,614 shares of common stock at an exercise price of $1.25 per share and has an obligation to issue five-year immediately vested warrants to purchase 84,000 shares of common stock at an exercise price of $1.25 per share.

Related Party Warrant Extension

Subsequent to June 30, 2023, the Company and a former director of the Company agreed to extend the expiration date of certain warrants to purchase an aggregate of 160,000 shares of common stock from July 20, 2023 to July 20, 2027.

Increase in Authorized Shares

Effective July 26, 2023, the Company amended the certificates of designation which established the Series A Convertible Preferred Stock and Series C Convertible Preferred Stock to increase the number of shares designated from 1,335,000 to 1,350,000 shares for the Series A Convertible Preferred Stock and from 500,000 to 1,000,000 shares for the Series C Convertible Preferred Stock.

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 June 30, 2023 and for the three and six months ended June 30, 2023 and 2022 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, 2022 as filed with the Securities and Exchange Commission ("SEC") on August 8, 2023.

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, 2022, filed with the SEC on August 8, 2023.

Overview

We are a cell therapy company focused on immunotherapy. Since our inception, we have been involved with the development of proprietary immune system management technology licensed from Yeda Research & Development Company Limited ("Yeda"), the commercial arm of the Weizmann Institute. We have since shifted the focus of our research and development efforts to MD Anderson.

This technology addresses one of the most fundamental challenges within human immunology: how to tune the immune response such that it tolerates selected desirable foreign cells, but continues to attack all other (undesirable) targets. In simpler terms, a number of potentially life-saving treatments have limited effectiveness today because the patient's immune system rejects them. For example, while HSCT – hematopoietic stem cell transplantation (e.g. bone marrow transplantation) has become a preferred therapeutic approach for treating blood cell cancer, most patients do not have a matched family donor. Although matched unrelated donors and cord blood can each provide an option for such patients, haploidentical stem cell transplants (sourced from partially mismatched family members) are rapidly gaining favor as a treatment of choice. This is still a risky and difficult procedure primarily because of potential conflicts between host (recipient) and donor immune systems and also due to viral infections that often follow even successful HSCT while the compromised new immune system works to reconstitute itself by using the transplanted stem cells. Today, rejection is partially overcome using aggressive immune suppression treatments that leave the patient exposed to many dangers by compromising their immune system.

The unique advantage of Cell Source technology lies in the ability to induce sustained tolerance of transplanted cells (or organs) by the recipient's immune system in a setting that requires only mild immune suppression, while avoiding the most common post-transplant complications. The scientific term for the result of successfully inducing such tolerance in a transplantation setting is chimerism, where the recipient's immune system tolerates the co-existence of the (genetically different) donor type and host type cells. Attaining sustained chimerism is an important prerequisite to achieving the intrinsic GvL (graft versus leukemia) effect of HSCT and supporting the reconstitution of normal hematopoiesis (generation of blood cells, including those that protect healthy patients from cancer) in blood cancer patients. Preclinical data and initial clinical data show that Cell Source's Veto Cell technology can provide superior results in allogeneic (donor-derived) HSCT by allowing for haploidentical stem cell transplants under a mild conditioning regimen, while avoiding the most common post-transplant complications. Combining this with CAR (Chimeric Antigen Receptor) T cell therapy as a unified VETO CAR-T treatment, we will be able to treat patients in relapse as well as those in remission and use the cancer killing power of CAR-T to protect the patient while their immune system fully reconstitutes, thus providing an end-to-end solution for blood cancer treatment by potentially delivering a fundamentally safer and more effective allogeneic HSCT: prevention of relapse; avoidance GvHD; prevention of viral infections; and enhanced persistence of GvL effect. This means that the majority of patients will be able to find a donor, and will have access to a potentially safer procedure with higher long term survival rates than what either donor-derived HSCT or autologous CAR-T each on their own currently provide.

The ability to induce permanent chimerism (and thus sustained tolerance) in patients – which allows the transplantation to overcome rejection without having to compromise the rest of the immune system – may open the door to effective treatment of a number of severe medical conditions, in addition to blood cancers, which are characterized by this need. These include:

- The broader set of cancers, including solid tumors, that can potentially be treated effectively using genetically modified cells such as CAR-T cell therapy, but also face efficacy and economic constraints due to limited persistence based on immune system issues (i.e., the need to be able to safely and efficiently deliver allogeneic CAR-T therapy). Inducing sustained tolerance to CAR-T cells may bring reduced cost and increased efficacy by allowing for off-the-shelf (vs. patient-derived) treatments with more persistent cancer killing capability.

- Organ failure and transplantation. A variety of conditions can be treated by the transplantation of vital organs. However, transplantation is limited both by the insufficient supply of available donor organs and the need for lifelong, daily anti-rejection treatments post-transplant. Haploidentical organ transplants, with sustained chimerism, have the potential to make life saving transplants accessible to the majority of patients, with the prospect of improved life quality and expectancy.

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Non-malignant hematological conditions (such as type one diabetes and sickle cell anemia) which could, in many cases, also be more effectively treated by stem cell transplantation if the procedure could be made safer and more accessible by inducing sustained tolerance in the stem cell transplant recipient.

Human Capital Resources

Other than our Chief Executive Officer, we currently do not have any full-time employees, but retain the services of independent contractors/consultants on a contract-employment basis.

Recent Developments

Preclinical Results and Clinical Results

Following on a successful , intensive collaboration with Professor Zelig Eshhar, the inventor of CAR-T cell therapy, data confirmed that Veto Cells can markedly extend persistence of genetically modified T cells from the same donor and that genetically modified Veto Cells can effectively inhibit tumors expressing an antigen recognized by the transgenic T cell receptor. Furthermore, human Veto Cells transfected with CAR exhibit anti-tumor activity in-vitro without losing their veto activity. These preclinical results form the basis of our current development of a clinical protocol for allogeneic VETO CAR-T HSCT combined therapy for blood cancer treatment. Cell Source plans to submit this protocol for approval in 2023. The Phase 1/2 clinical trial at the University of Texas MD Anderson Cancer Center, using Cell Source's Anti-viral Veto Cells, has successfully treated 10 patients each receiving a haploidentical HSCT under reduced intensity conditioning with Veto Cells. The main objective of the trial is to achieve engraftment of the T-cell depleted transplant without GvHD by using Veto cells, and to define the optimal Veto cell dose. The initial version of the protocol was very successful in achieving these primary endpoints in all of the first 10 patients. None of the patients experienced toxicity nor any other adverse outcome associated with the Veto cells. While a subsequently treated patient had initial engraftment, the patient developed secondary graft failure, associated with a viral infection which is known to cause this. Another patient with aplastic anemia, a nonmalignant disorder, achieved successful engraftment, but later developed autoimmune hemolytic anemia, and eventually died; this was not linked to the Veto cells.

Four patients who engrafted subsequently had reduced white blood cell counts, which responded to treatment. Importantly, none of these patients have rejected their transplant. These reduced white blood cell counts are antibody related issues, which are more common after T-cell depleted transplants and haploidentical transplants. Since this protocol uses a reduced intensity preparative regimen to reduce toxicity, there is limited depletion of B-cells. In other settings, the use of Rituximab prior to a T-cell deplete transplant has effectively addressed this issue, without adverse outcomes. The current protocol already included Rituximab for patients with B-cell blood cell cancers, and we now revised the protocol so as to give Rituximab to all patients. We have structured the balance of the trial to both determine the maximum Veto cell dose tolerance and also to ensure that we can avoid antibody related issues. If it continues to succeed in human clinical trials, we believe that it may have meaningful and potentially broad impact on the field of stem cell transplantation:

1) Significantly improve outcomes of transplantations by reducing the host (transplant recipient) rejection rate of T-cell depleted stem cells (e.g. from bone marrow) – thus supporting successful engraftment of the transplanted cells, which is the treatment for the blood cancer itself. In order to improve the safety of this cancer treatment, Veto Cell technology has shown in both preclinical studies and initial clinical data that it can markedly reduce both the risk of GvHD and the need for using aggressive amounts of immunosuppression treatments. We have shown in preclinical studies, and are beginning to see in the clinic, the reduction of viral infections that typically threaten patients post transplantation. This safer means of delivering stem cell transplants would significantly reduce the HSCT mortality rate and therefore lead to broader use of this treatment. Furthermore, by adding CAR-T to the HSCT protocol, which we have already done successfully in preclinical studies, we can bridge between the initial transplantation and the conclusion of immune reconstitution, thus providing both short-term and ongoing protection against remission. This has the potential to significantly improve efficacy beyond that of the current outcomes of either CAR-T or HSCT on their own.

2) Substantively increase the number of transplantations by enabling successful engraftment under lower levels of immune suppression and therefore making the therapy accessible to older and sicker patients (who today may not survive ablation).

3) Further increase the number of transplantations by making transplantation appropriate for other indications (for which today transplantation would be considered an inappropriately risky treatment). See, e.g. BMT 2021 Correction of Sickle Cell Disease by Allogeneic Hematopoietic Cell Transplantations with Anti-3rd Party Veto Cells, Bone Marrow Transplantation, March 3, 2021.

In addition, our Veto Cell technology may possibly play a role in the treatment of a number of additional serious and currently poorly treated non-malignant diseases. Finally, based on preclinical studies using genetically modified cells, we believe that Veto Cells will be able to act as critical enabler for other cell therapies, most notably CAR-T cell therapy, which has recently shown strong initial indications of being effective in the near term in treating blood cancer.

Condensed Consolidated Results of Operations

Three Months Ended June 30, 2023 Compared with the Three Months Ended June 30, 2022

Research and Development

Research and development expense was $365,588 and $569,510 for the three months ended June 30, 2023 and 2022, respectively, a decrease of $203,922, or 36%. This decrease is primarily attributable to no patient enrollment milestones being achieved during the 2023 period, compared to two patient enrollment milestones being achieved during the 2022 period.

General and Administrative

General and administrative expense, which is associated with external consulting and professional fees, payroll and stock-based compensation expenses, was $539,877 and $464,367 for the three months ended June 30, 2023 and 2022, respectively, an increase of $75,510, or 16%. The increase was primarily attributable to an increase in consulting fees of $90,000, and an increase in stock-based compensation of $49,890 partially offset by a decrease in accounting and audit expenses of $30,227, and other miscellaneous expenses of $36,306.

Interest Expense

Interest expense for the three months ended June 30, 2023 and 2022 was $237,282 and $193,362, respectively, an increase of $43,920, or 23%. This increase is primarily associated with increased convertible notes and the fair value of additional warrant obligations in connection with debtholder penalties which are characterized as interest during the 2023 period.

Amortization of Debt Discount

Amortization of debt discount was $140,777 and $58,355 for the three months ended June 30, 2023 and 2022, respectively, an increase of $82,422, or 141%. This increase is primarily associated with increased convertible notes and the fair value of warrants issued in connection with convertible notes payable during the 2023 period.

Gain on Extinguishment of Note Payable

Gain on extinguishment of note payable was $41,920 and $0 for the three months ended June 30, 2023 and 2022, respectively. The gain on extinguishment of note payable is attributable to the exchange of a promissory note in the principal amount of $100,000 for 176,000 shares of common stock.

Six Months Ended June 30, 2023 Compared with the Six Months Ended June 30, 2022

Research and Development

Research and development expense was $704,088 and $1,048,515 for the six months ended June 30, 2023 and 2022, respectively, a decrease of $344,427, or 33%. This decrease is mainly attributable to the achievement $316,515 of patient enrollment milestones achieved in 2022 under the sponsored research agreement with MD Andersen whereas no milestones were achieved in the 2023 period.

General and Administrative

General and administrative expense, which is associated with external consulting and professional fees, payroll and stock-based compensation expenses, was $1,616,926 and $1,038,034 for the six months ended June 30, 2023 and 2022, respectively, an increase of $578,892, or 56%. The increase was primarily attributable to an increase in consulting expenses of $169,000, an increase in stock-based compensation of $373,982 and an increase of $37,683 of legal expenses, partially offset by a decrease in miscellaneous expenses of $24,540.

Interest Expense

Interest expense for the six months ended June 30, 2023 and 2022 was $373,052 and $360,127, respectively, an increase of $12,925, or 4%. This increase is primarily associated with increased convertible notes and the fair value of additional warrant obligations in connection with debtholder penalties which are characterized as interest during the 2023 period.

Amortization of Debt Discount

Amortization of debt discount was $281,025 and $131,493 for the six months ended June 30, 2023 and 2022, respectively, an increase of $149,532, or 114%. The increase is primarily associated with the increased levels of warrants issued as debt discounts in connection with convertible notes payable in the 2023 period.

Gain on Extinguishment of Note Payable

Gain on extinguishment of note payable was $41,920 and $0 for the six months ended June 30, 2023 and 2022, respectively. The gain on extinguishment of note payable is attributable to the exchange of a promissory note in the principal amount of $100,000 for 176,000 shares of common stock.

Liquidity and Going Concern

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

	June 30, 2023	December 31, 2022
Cash	$ 21,993	$ 222,665
Working capital deficiency	$ (14,945,759)	$ (12,633,895)

During the six months ended June 30, 2023, we had not generated any revenues, had a net loss of approximately $2,933,000 and had used cash in operations of approximately $1,346,000. As of June 30, 2023, we had a working capital deficiency of $14,946,000 and an accumulated deficit of approximately $39,279,000. As of June 30, 2023 and through the date of this filing, notes payable with principal amounts totaling approximately $1,956,000 and $5,196,000, respectively, were past due and are classified as current liabilities on the condensed consolidated balance sheet as of June 30, 2023. We will continue to incur net operating losses to fund operations. These conditions raise substantial doubt about our ability to continue as a going concern for at least one year from the date these financial statements are issued. Subsequent to June 30, 2023, we received aggregate proceeds of approximately $452,000 from the issuance of convertible notes payable.

We are currently funding our operations on a month-to-month basis. 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 six months ended June 30, 2023 and 2022, 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 six months ended June 30, 2023 and 2022 in the amounts of approximately $1,346,000 and $1,329,000, respectively. The net cash used in operating activities for the six months ended June 30, 2023 was primarily due to cash used to fund a net loss of approximately $2,933,000, adjusted for non-cash expenses in the aggregate amount of approximately $599,000, partially offset by $988,000 of net cash provided by changes in the levels of operating assets and liabilities. The net cash used in operating activities for the six months ended June 30, 2022 was primarily due to cash used to fund a net loss of approximately $2,578,000, adjusted for non-cash expenses in the aggregate amount of approximately $200,000, partially offset by $1,050,000 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 six months ended June 30, 2023 and 2022 was approximately $1,145,000 and $1,238,000, respectively. The net cash provided by financing activities during the six months ended June 30, 2023 was attributable to $350,000 of proceeds from the issuance of convertible notes to a related party director and $794,960 of proceeds from the issuance of convertible notes payable. The net cash provided by financing activities during the six months ended June 30, 2022, was attributable to $1,000,000 of proceeds from the issuance of convertible notes to a related party director and $245,000 of proceeds from the issuance of convertible notes payable, proceeds from the issuance of notes payable of $168,094, partially offset by the repayments of the insurance financing liability in the amount of $27,926 and the repayment of notes payable of $146,912.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Critical Accounting Policies and Estimates

The preparation of financial statements and related disclosures are in conformity with U.S. GAAP. These accounting principles require us to make estimates and judgments that can affect the reported amounts of assets and liabilities as of the date of the financial statements as well as the reported amounts of revenue and expense during the periods presented. We believe that the estimates and judgments upon which it relies are reasonably based upon information available to us at the time that it makes these estimates and judgments. To the extent that there are material differences between these estimates and actual results, our financial results will be affected. The accounting policies that reflect our more significant estimates and judgments and which we believe are the most critical to aid in fully understanding and evaluating our reported financial results are described below.

The following critical accounting policies and estimates are not intended to be a comprehensive list of all of our accounting policies or estimates. Our accounting policies are more fully described in Note 3 – Summary of Significant Accounting Policies, in our financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2022, which was filed with the SEC on August 8, 2023, as well as in our financial statements included elsewhere in this quarterly report.

Convertible Instruments

The Company evaluates its convertible instruments to determine if those contracts or embedded components of those contracts qualify as derivative financial instruments to be separately accounted for in accordance with Topic 815 of the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”). The accounting treatment of derivative financial instruments requires that the Company record embedded conversion options and any related freestanding instruments at their fair values as of the inception date of the agreement and at fair value as of each subsequent balance sheet date. Any change in fair value is recorded as non-operating, non-cash income or expense for each reporting period at each balance sheet date. The Company reassesses the classification of its derivative instruments at each balance sheet date. If the classification changes as a result of events during the period, the contract is reclassified as of the date of the event that caused the reclassification. Embedded conversion options and any related freestanding instruments are recorded as a discount to the host instrument and are amortized as interest expense over the term of the related debt instrument.

The Black-Scholes option pricing model was used to estimate the fair value of the Company’s warrants. The Black-Scholes option pricing model includes subjective input assumptions that can materially affect the fair value estimates.

Fair Value of Financial Instruments

The Company measures the fair value of financial assets and liabilities based on ASC 820 “Fair Value Measurements and Disclosures” (“ASC 820”), which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements.

ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. ASC 820 describes three levels of inputs that may be used to measure fair value:

Level 1 — quoted prices in active markets for identical assets or liabilities;

Level 2 — quoted prices for similar assets and liabilities in active markets or inputs that are observable; and

Level 3 — inputs that are unobservable (for example, cash flow modeling inputs based on assumptions).

The carrying amounts of the Company’s financial instruments, such as cash, other current assets, accounts payable, accrued expenses and other current liabilities approximate fair values due to the short-term nature of these instruments. The carrying amounts of Company’s credit obligations approximate fair value because the effective yields on these obligations, which include contractual interest rates, are comparable to rates of returns for instruments of similar credit risk.

Stock-Based Compensation

The Company measures the cost of services received in exchange for an award of equity instruments based on the fair value of the award. The fair value of the award is measured on the grant date and is then recognized over the period the services are required to be provided in exchange for the award, usually the vesting period. Upon the exercise of an option or warrant, the Company issues new shares of common stock out of its authorized shares.

Because the Company's common stock historically was not actively traded on a public market, the fair value of the Company's restricted equity instruments is estimated by management based on observations of the sales prices of both restricted and freely tradable common stock, or instruments convertible into common stock. The Company obtained a third-party valuation of its common stock as of December 31, 2022 and 2021, which was considered in management's estimation of fair value during the years ended December 31, 2022 and 2021. The third-party valuation was performed in accordance with the guidance outlined in the American Institute of Certified Public Accountants' Accounting and Valuation Guide, Valuation of Privately-Held-Company Equity Securities Issued as Compensation. The estimates used by management are considered highly complex and subjective. The Company anticipates that once its shares become more actively traded, the use of such estimates will no longer be necessary to determine the fair value of its common stock.

The independent appraisal utilized the market approach, specifically the Backsolve method. The Backsolve method utilizes the economics from a direct transaction in the Company's securities in determining fair value. The Backsolve method utilizes the Black-Scholes option pricing method ("OPM") which allocated a probability-weighted present value to the Company's convertible securities. The following steps were applied under the OPM:

- Establishment of total enterprise or equity value;
- Analysis of equity rights for each class of security;
- Selection of appropriate model for valuation purposes;
- Determination of key valuation inputs; and
- Computation of the fair value of the subject security.

Under the OPM, it was determined the Company's common stock had a fair value of $0.33 and $0.34 per share as of December 31, 2022 and 2021, respectively, which included a discount for lack of marketability of 25% and 30%, respectively. Furthermore, the independent appraisal determined the Company's expected volatility was 80% and 90% as of December 31, 2022 and 2021, respectively, by evaluating historical and implied volatilities of guideline companies.

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 June 30, 2023, 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 June 30, 2023 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. On June 12, 2019, the plaintiff served a motion for summary judgment through the Secretary of State which was heard on July 12, 2019 and granted. The Company contends that it was not given sufficient notice under the applicable statute and did not have an opportunity to oppose the motion. Judgment was entered in October 2019 in the amount of $267,680. The Company brought a motion to vacate based on the jurisdictional defect of the motion in not providing the required amount of time, but that motion was denied in February 2021 without properly addressing the jurisdictional issues raised by the Company. The Company appealed the denial and then filed a motion to Renew and Reargue the motion to vacate based on the Court's failure to address critical issues. That motion was also denied on April 15, 2021 without addressing the Company's arguments. The Company appealed the second denial as well and pursued both appeals in a consolidated manner so as to resolve all issues together. Each of the appeals was denied and there is no further opportunity to appeal. While the Company's motions were pending, the plaintiff commenced steps to collect judgment. During the year ended December 31, 2021, $103,088 of a $250,000 deposit made with the court by a third party on behalf of the Company was released to an officer of the court and has been accounted for as partial note repayment, with an additional $146,912 due under the note repaid by a release of the remaining deposit to an officer of the court during the year ended December 31, 2022, which was also accounted for as a note repayment. In August 2023, a supplemental judgment of $38,838 was entered against the Company. Inasmuch as there are no further opportunities to appeal, the Company is arranging to pay the remaining amount due, which, as of the date of this Report, is estimated to be approximately $106,000.

In August 2022, a holder of 360,000 shares of the Company's common stock filed a complaint against the Company, its President and legal counsel in the United States District Court, Southern District of New York, claiming unspecified damages for an alleged wrongful refusal to authorize the Company's transfer agent to remove restrictive legends from the shares held by the shareholder. The Company has filed a motion to dismiss the complaint which is pending, as is a mediation being conducted in an effort to resolve this matter. The complaints against the Company's legal counsel and President were dismissed by the Court.

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, 2022, which was filed with the SEC on August 8, 2023.

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

Effective May 17, 2023, pursuant to the terms of a note originally issued to a member of our Board of Directors and assigned to a trust, we issued to the trust warrants to purchase 610,414 shares of common stock at an exercise price of $1.25 per share. We 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.

In June 2023, we issued an aggregate of 802,880 shares of our common stock as payment-in-kind dividends to holders of our Series A Convertible Preferred Stock and holders of our Series C Convertible Preferred Stock. We relied upon the exemption provided by Section 4(2) of the Securities Act in connection with these transactions.

During the three months ended June 30, 2023, we issued convertible notes in the aggregate principal amount of $175,000 to four accredited investors. The notes mature six months from the date of issuance and accrue interest at a rate of 8% per annum. The notes automatically convert into shares of our Series C Preferred Stock at a conversion price of $7.50 per share on the maturity date. In connection with the issuance of the notes, we issued five year warrants to purchase an aggregate of 140,000 shares of common stock at an exercise price of $1.25 per share. We relied upon the exemption provided by Section 4(2) of the Securities Act in connection with these transactions.

During the three months ended June 30, 2023, we issued convertible notes in the aggregate principal amount of $400,000 to four accredited investors. The notes mature six months from the date of issuance, accrue interest at a rate of 8% per annum and are convertible at any time at the option of the holder into the Company's common stock at a conversion price of $0.75 per share. In connection with the issuances, the Company issued five-year warrants to purchase an aggregate of 200,000 shares of common stock at an exercise price of $1.25 per share. We relied upon the exemption provided by Section 4(2) of the Securities Act in connection with these transactions.

In June 2023, we issued 176,000 shares of common stock to the holder of a promissory note in the principal amount of $100,000 that matured in May 2018 in exchange for the cancellation of the note. We relied upon the exemption provided by Section 3(a)(9) of the Securities Act in connection with this transaction.

Item 3. Defaults Upon Senior Securities.

As of June 30, 2023 and through the date of this filing, notes payable and convertible notes payable with face values totaling $1,956,093 and $5,196,129, respectively, were past due and are classified as current liabilities on the condensed consolidated balance sheet as of June 30, 2023. Such notes continue to accrue interest and all relevant penalties have been accrued as of June 30, 2023. 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.

Effective July 26, 2023, we amended the certificates of designation which established our Series A Convertible Preferred Stock and Series C Convertible Preferred Stock to increase the number of shares designated from 1,335,000 to 1,350,000 shares for the Series A Convertible Preferred Stock and from 500,000 to 1,000,000 shares for the Series C Convertible Preferred Stock.

Item 6. Exhibits.

31*	Certification of principal executive officer and principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32*	Certification of principal executive officer and principal financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	Inline XBRL Instance Document
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

* Filed herewith

SIGNATURES

Pursuant to the requirements of 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: September 19, 2023

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

Exhibit 31

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.

Date: September 19, 2023

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

Exhibit 32

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 June 30, 2023 (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.

Date: September 19, 2023

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