

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

FORM 10-Q

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

For the quarterly period ended June 30, 2008

☐ TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For transition period from _____ to _____

Commission File Number: 0-51891

INTERNATIONAL STEM CELL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

2595 Jason Court
Oceanside, CA 92056
(Address of Principal Executive Offices)

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

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

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

Large accelerated filer ☐ Accelerated filer ☐

Non-accelerated filer ☐ Smaller reporting company ☒

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

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: As of August 9, 2008, there were **35,989,495** shares of Common Stock outstanding.

International Stem Cell Corporation and Subsidiary
(A Development Stage Company)
INDEX TO FORM 10-Q

	<u>Page</u>
PART I - FINANCIAL INFORMATION	
Item 1 - Financial Statements	3
Condensed Consolidated Statements of Financial Condition	3
Condensed Consolidated Statements of Operations	4
Condensed Consolidated Statements of Members Deficit and Stockholders' Equity (Deficit)	5
Condensed Consolidated Statements of Cash Flows	6
Notes to Unaudited Condensed Consolidated Financial Statements	7
Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations	18
Item 3. Quantitative and Qualitative Disclosures About Market Risk	21
Item 4 - Controls and Procedures	21
PART II - OTHER INFORMATION	
Item 1 - Legal Proceedings	22
Item 1A - Risk Factors	22
Item 2 - Unregistered Sales of Equity Securities and Use of Proceeds	22
Item 3 - Defaults Upon Senior Securities	22
Item 4 -Submission of Matters to a Vote of Security Holders	22
Item 5 - Other Information	22
Item 6 - Exhibits	23
Exhibit 31.1	25
Exhibit 31.2	26
Exhibit 32.1	27
Exhibit 32.2	28

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

International Stem Cell Corporation and Subsidiary
(A Development Stage Company)
Condensed Consolidated Statements of Financial Condition

	June 30, 2008 (Unaudited)	December 31, 2007
Assets		
Cash and cash equivalents	\$ 36,184	\$ 165,344
Inventory	232,303	175,636
Other current assets	14,075	10,189
Prepaid assets	140,912	119,035
Property and equipment, net	448,331	482,786
Patent licenses, net	627,456	625,148
Deposits and other assets	19,643	19,643
Total assets	\$ 1,518,904	\$ 1,597,781
Liabilities and stockholders' equity		
Accounts payable	\$ 931,114	\$ 493,426
Accrued liabilities	140,655	142,177
Convertible debt and Advances, net	714,769	-
Related party payables	376,917	749,778
Total liabilities	2,163,455	1,385,381
Commitments and contingencies		
Stockholders' equity (Deficit):		
Common stock, \$.001 par value, 200,000,000 shares authorized, 35,889,495 shares and 35,369,495 shares issued and outstanding as of June 30, 2008 and December 31, 2007, respectively	35,889	35,369
Preferred stock, \$.001 par value, 20,000,000 shares authorized, 1,400,000 shares and 0 shares issued and outstanding as of June 30, 2008 and December 31, 2007, respectively	1,400	-
Additional paid-in capital	19,201,399	16,124,046
Accumulated deficit during the development stage	(19,883,239)	(15,947,015)
Total stockholders' equity (Deficit)	(644,551)	212,400
Total liabilities and stockholders' equity	\$ 1,518,904	\$ 1,597,781

See accompanying notes to the unaudited condensed consolidated financial statements.

International Stem Cell Corporation and Subsidiary
(A Development Stage Company)
Condensed Consolidated Statements of Operations
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,		Inception (August 2001) through June 30, 2008
	2008	2007	2008	2007	
Revenues					
Sales, net	\$ 122,303	\$ 3,355	\$ 154,635	\$ 5,181	\$ 196,385
Development expenses					
Cost of sales	56,006	1,329	76,865	5,853	148,734
Research and development	662,922	555,697	1,250,963	1,191,640	7,626,075
Marketing	78,647	207,058	227,994	271,046	859,450
General and administrative	999,688	970,505	1,885,347	1,615,661	9,719,114
Total development expenses	<u>1,797,263</u>	<u>1,734,589</u>	<u>3,441,169</u>	<u>3,084,200</u>	<u>18,353,373</u>
Loss from development activities	<u>(1,674,960)</u>	<u>(1,731,234)</u>	<u>(3,286,534)</u>	<u>(3,079,019)</u>	<u>(18,156,988)</u>
Other income (expense)					
Settlement with related company	-	-	-	-	(93,333)
Miscellaneous income	-	1,532	-	2,081	9,000
Dividend income	4	38,212	361	84,070	54,335
Interest expense	(123,100)	(9,775)	(129,145)	(23,454)	(1,197,276)
Sublease income	2,100	1,400	4,200	5,442	32,929
Total other expense	<u>(120,996)</u>	<u>31,369</u>	<u>(124,584)</u>	<u>68,139</u>	<u>(1,194,345)</u>
Loss before income taxes	<u>(1,795,956)</u>	<u>(1,699,865)</u>	<u>(3,411,118)</u>	<u>(3,010,880)</u>	<u>(19,351,333)</u>
Provision for income taxes	-	800	-	800	6,800
Net loss	<u>\$ (1,795,956)</u>	<u>\$ (1,700,665)</u>	<u>\$ (3,411,118)</u>	<u>\$ (3,011,680)</u>	<u>\$ (19,358,133)</u>
Deemed dividend on preferred stock	85,230	-	\$ 525,106	-	525,106
Net loss attributable to common shareholders	<u>\$ (1,881,186)</u>	<u>\$ (1,700,665)</u>	<u>\$ (3,936,224)</u>	<u>\$ (3,011,680)</u>	<u>\$ (19,883,239)</u>
Net loss per share computation:					
Weighted average shares outstanding	<u>35,590,044</u>	<u>35,366,495</u>	<u>35,422,797</u>	<u>35,356,619</u>	
Net loss per share – Basic and Diluted	<u>\$ (0.05)</u>	<u>\$ (0.05)</u>	<u>\$ (0.11)</u>	<u>\$ (0.09)</u>	

See accompanying notes to the unaudited condensed consolidated financial statements.

International Stem Cell Corporation and Subsidiary
(A Development Stage Company)
Condensed Consolidated Statements of Members' Deficit and Stockholders' Equity (Deficit)
From Inception to June 30, 2008
(Unaudited)

	Common Stock		Preferred Stock		Additional	Accumulated	Total	Member's
	Shares	Par	Shares	Par	Paid in Capital	Deficit	Equity	Deficit
Balance at August 17, 2001								
Members contribution								\$ 100,000
Net loss for the period from inception								(140,996)
Balance at December 31, 2001								(40,996)
Members contribution								250,000
Net loss for the year ended								(390,751)
Balance at December 31, 2002								(181,747)
Members contribution								195,000
Net loss for the year ended								(518,895)
Balance at December 31, 2003								(505,642)
Members contribution								1,110,000
Net loss for the year ended								(854,718)
Balance at December 31, 2004								(250,360)
Members contribution								780,000
Net loss for the year ended								(1,385,745)
Balance at December 31, 2005								(856,105)
Members contribution								(250,000)
Effect of the reorganization transaction	20,000,000	\$ 20,000			\$ 2,665,000	\$ (3,291,105)	\$ (606,105)	\$ (606,105)
BTHC transactions	2,209,993	2,210			(2,210)		-	
Offering costs					(2,778,082)		(2,778,082)	
Warrants issued for equity placement services					1,230,649		1,230,649	
Warrants issued for services					222,077		222,077	
Warrants issued with promissory note					637,828		637,828	
Common stock issued for services	1,350,000	1,350			1,348,650		1,350,000	
Issuance of common stock	10,436,502	10,436			10,371,512		10,381,948	
Stock-based compensation					842,374		842,374	
Net loss for the year ended December 31, 2006						(6,583,927)	(6,583,927)	
Balance at December 31, 2006	33,996,495	33,996			14,537,798	(9,875,032)	4,696,762	
Offering costs					(382,124)		(382,124)	
Warrants issued for equity placement services					169,249		169,249	
Issuance of common stock	1,370,000	1,370			1,368,630		1,370,000	
Warrants exercised	3,000	3			2,997		3,000	
Stock-based compensation					427,496		427,496	
Net loss for the year ended December 31, 2007						(6,071,983)	(6,071,983)	
Balance at December 31, 2007	35,369,495	\$ 35,369	-	\$ -	\$ 16,124,046	\$ (15,947,015)	\$ 212,400	
Issuance of Preferred stock			1,400,000	1,400	1,398,600		1,400,000	
Preferred Stock								

Subscribed								
Warrants issued and beneficial conversion feature					482,234		482,234	
Issuance of Common Stock	520,000	520			95,029		95,549	
Stock-based compensation					576,384		576,384	
Deemed dividend on preferred stock					525,106	(525,106)	-	
Net loss year to date June 3, 2008						(3,411,118)	(3,411,118)	
Balance at June 30, 2008	<u>35,889,495</u>	<u>\$ 35,889</u>	<u>1,400,000</u>	<u>\$ 1,400</u>	<u>\$ 19,201,399</u>	<u>\$ (19,883,239)</u>	<u>\$ (644,551)</u>	<u></u>

See accompanying notes to the unaudited condensed consolidated financial statements.

International Stem Cell Corporation and Subsidiary
(A Development Stage Company)
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Six Months Ended June 30,		Inception (August 2001) through June 30, 2008
	2008	2007	
Net loss	\$ (3,411,118)	\$ (3,011,680)	\$ (19,358,133)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	79,486	73,141	368,903
Accretion of discount on Notes Payable	-	-	103,304
Accretion of discount on bridge loans	-	-	637,828
Non-cash warrants for services	-	-	222,077
Stock-based compensation	576,384	95,549	1,846,254
Amortization of debt discount on convertible debt	117,003	-	117,003
Common stock issued for services	95,549	-	1,445,549
Changes in operating assets and liabilities			
(Increase) in other current assets	(3,886)	(5,201)	(14,075)
(Increase) decrease in inventory	(56,667)	(33,967)	(232,303)
(Increase) decrease in prepaid assets	(21,877)	(31,839)	(140,912)
(Increase) decrease in deposits and other assets	-	(1,400)	(19,643)
Increase (decrease) in accounts payable	437,688	(4,565)	931,114
Increase (decrease) in accrued liabilities	(1,522)	157,817	140,655
Increase (decrease) in related party payables	(372,861)	(145,500)	376,917
Net cash used in operating activities	(2,561,821)	(2,791,430)	(13,575,462)
Investing activities			
Purchases of property and equipment	(18,298)	(215,747)	(657,513)
Payments for patent licenses and trademarks	(29,041)	(189,159)	(787,177)
Net cash used in investing activities	(47,339)	(404,906)	(1,444,690)
Financing activities			
Members' contributions	-	-	2,685,000
Proceeds from issuance of common stock, Preferred Stock, and warrant exercises	1,400,000	1,370,000	13,154,948
Proceeds for issuance of convertible promissory notes	-	-	2,099,552
Net proceeds from convertible debt and advances	1,080,000	-	1,080,000
Payment of promissory notes	-	-	(2,202,856)
Proceeds from loan payable	-	-	25,000
Payment of loan payable	-	(25,000)	(25,000)
Payment of offering costs	-	(212,875)	(1,760,308)
Net cash provided by financing activities	2,480,000	1,132,125	15,056,336
Net (decrease) increase in cash	(129,160)	(2,039,211)	36,184
Cash and cash equivalents, beginning of period	165,344	4,696,694	-
Cash and cash equivalents, end of period	<u>\$ 36,184</u>	<u>\$ 2,657,483</u>	<u>\$ 36,184</u>
Supplemental disclosures of cash flow information:			
Cash paid for interest	<u>\$ -</u>	<u>\$ 23,453</u>	<u>\$ 333,049</u>
Cash paid for income taxes	<u>\$ -</u>	<u>\$ 2,500</u>	<u>\$ 7,400</u>
Non-cash financing activities:			
Warrants issued with promissory notes	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 637,828</u>
Warrants issued for placements agent services	<u>\$ -</u>	<u>\$ 169,249</u>	<u>\$ 1,230,649</u>
Deemed dividend on preferred stock	<u>\$ 525,106</u>	<u>\$ -</u>	<u>\$ 525,106</u>

See accompanying notes to the unaudited condensed consolidated financial statements.

International Stem Cell Corporation and Subsidiary
(A Development Stage Company)

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Organization

Business Combination and Corporate Restructure

BTHC III, Inc. ("BTHC III" or the "Company") was organized in Delaware in June 2005 as a shell company to effect the reincorporation of BTHC III, Inc., a Texas limited liability company. On December 28, 2006, we effected a Share Exchange pursuant to which we acquired all of the stock of International Stem Cell Corporation, a California corporation ("ISC California"). After giving effect to the Share Exchange, the stockholders of ISC California owned 93.7% of our issued and outstanding shares of common stock. As a result of the Share Exchange, ISC California is now our wholly-owned subsidiary, though for accounting purposes it was deemed to have been the acquirer in a "reverse merger." In the reverse merger, BTHC III is considered the legal acquirer and ISC California is considered the accounting acquirer. On January 29, 2007, we changed our name from BTHC III, Inc. to International Stem Cell Corporation.

Lifeline Cell Technology, LLC ("Lifeline") was formed in the State of California on August 17, 2001. Lifeline is in the business of developing, manufacturing and selling cells and reagents. Lifeline's scientists have used a technology, called basal medium optimization to systematically eliminate animal proteins from cell culture systems. Lifeline is unique in the industry in that it has in place scientific and manufacturing staff with the experience and knowledge to set up systems and facilities to produce a source of consistent, standardized, animal protein free ES cell products suitable for FDA approval.

Going Concern

The Company continues in the development stage and as such has accumulated losses from inception and expects to incur additional losses in the near future. The Company needs to raise additional working capital. The timing and degree of any future capital requirements will depend on many factors. There can be no assurance that the Company will be successful in maintaining its normal operating cash flow and the timing of its capital expenditures will result in cash flow sufficient to sustain the Company's operations through 2008 or 2009. Based on the above, there is substantial doubt about the Company's ability to continue as a going concern. The financial statements were prepared assuming that the Company is a going concern. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty. Management's plans in regard to these matters are focused on managing its cash flow, the proper timing of its capital expenditures, and raising additional capital or financing in the future.

Note 2: Summary of Significant Policies

Proforma Information and Basis of Presentation

The accompanying unaudited condensed consolidated financial statements included herein have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q. They do not include all information and notes required by generally accepted accounting principles for complete financial statements. However, except as disclosed herein, there has been no material change in the information disclosed in the notes to consolidated financial statements included in the annual report on Form 10-KSB of International Stem Cell Corporation for the year ended December 31, 2007. When used in these notes, the terms "Company," "we," "us," or "our" mean International Stem Cell Corporation and all entities included in our unaudited condensed consolidated financial statements.

In the opinion of management, the unaudited condensed consolidated financial information for the interim periods presented reflects all adjustments, consisting of only normal and recurring adjustments, necessary for a fair presentation of the Company's consolidated results of operations, financial position and cash flows. The unaudited condensed consolidated financial statements and the related notes should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2007 included in the Company's annual report on Form 10-KSB. Operating results for interim periods are not necessarily indicative of the operating results for any interim period or an entire year.

Principles of Consolidation

The unaudited condensed consolidated financial statements of the Company include the accounts of International Stem Cell Corporation and its subsidiary after intercompany balances and transactions have been eliminated.

Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Inventories

Inventories are stated at the lower of cost or market. Lab supplies used in the research and development process are expensed as consumed. Inventory is reviewed periodically for product expiration and obsolescence and adjusted accordingly.

Property and Equipment

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

Patent Licenses

Patent licenses consist of acquired research and development rights used in research and development, which have alternative future uses. Patent licenses are recorded at cost of \$787,176 and \$758,135 at June 30, 2008 and December 31, 2007, respectively, and are amortized on a straight-line basis over the shorter of the lives of the underlying patents or the useful life of the license. Amortization expense for the three months ended June 30, 2008 and 2007 amounted to \$26,733 and \$38,373 respectively, and is included in research and development expense. Additional information regarding patent licenses is included in Note 5.

Long-Lived Asset Impairment

The Company reviews long-lived assets for impairment when events or changes in business conditions indicate that their carrying value may not be recovered. The Company considers assets to be impaired and writes them down to fair value if expected associated cash flows are less than the carrying amounts. Fair value is the present value of the associated cash flows. The Company has determined that no material long-lived assets are impaired at June 30, 2008. See Note 5 for a discussion on the Company's patent licenses.

Product Sales

Revenue from product sales is recognized at the time of shipment to the customer provided all other revenue recognition criteria of the Security and Exchange Commission's Staff Accounting Bulletin No. 104, Revenue Recognition, have been met. If the customer has a right of return, in accordance with the provision set forth in the Financial Accounting Standards Board's (FASB) Statement No. 48, Revenue Recognition When Right of Return Exists (SFAS 48), the Company recognizes product revenues upon shipment, provided that future returns can be reasonably estimated. In the case where returns cannot be reasonably estimated, revenue will be deferred until such estimates can be made.

Cost of Sales

Cost of sales consists primarily of costs and expenses for salaries and benefits associated with employee efforts expended directly on the production of the Company's products and include related direct materials, overhead and occupancy costs. Certain of the agreements under which the Company has licensed technology will require the payment of royalties based on the sale of its future products. Such royalties will be recorded as a component of cost of sales. Additionally, the amortization of license fees or milestone payments related to developed technologies used in the Company's products will be classified as a component of cost of sales to the extent such payments become due in the future.

Research and Development Costs

Research and development costs, which are expensed as incurred, are primarily comprised of costs and expenses for salaries and benefits associated with research and development personnel; overhead and occupancy; contract services; and amortization of technology used in research and development with alternative future uses.

Registration Payment Arrangements

The Company adopted FASB Staff Position No. EITF 00-19-2, Accounting for Registration Payment Arrangements ("FSP EITF 00-19-2"), on January 2007. FSP EITF 00-19-2 requires that companies separately recognize and measure registration payment arrangements, whether issued as a separate agreement or included as a provision of a financial instrument or other agreement. Such payments include penalties for failure to effect a registration of securities.

Prior to the adoption of FSP EITF 00-19-2, the Company accounted for registration rights as separate arrangements. Accordingly, the adoption of FSP EITF 00-19-2 had no impact on the consolidated financial position, operations, or cash flows of the Company for the period ended June 30, 2008.

New Accounting Pronouncements

In September 2006, the FASB issued Statement No. 157 *Fair Value Measurements*, ("SFAS 157"), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. This statement is effective for us beginning January 1, 2008 and did not have an impact on our financial statements as we do not have financial instruments subject to the expanded disclosure requirements. In February 2008, the FASB issued FASB Staff Position FAS 157-2 *Effective Date of FASB Statement No. 157*, which provides a one year delay of the effective date of FAS 157 as it relates to nonfinancial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The provisions of SFAS 157 relating to nonfinancial assets and liabilities will be effective for us on January 1, 2009. We assessed the potential impact that adoption of FASB 157 as it relates to nonfinancial assets and liabilities would have on our consolidated financial statements and have concluded that there will be no material impact in 2009.

In February 2007, the FASB issued Statement No. 159 *The Fair Value Option for Financial Assets and Financial Liabilities* ("SFAS 159"). Under the provisions of SFAS 159, companies may choose to account for eligible financial instruments, warranties and insurance contracts at fair value on a contract-by-contract basis. Changes in fair value will be recognized in earnings each reporting period. FASB 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The adoption of SFAS 159 had no impact on our consolidated financial statements as we did not elect the fair value option.

In December 2007, the FASB issued Statement No. 141 (revised 2007) *Business Combinations*, ("SFAS 141(r)"). The new standard requires the acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transaction; establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; and requires the acquirer to disclose to investors and other users all of the information they need to evaluate and understand the nature and financial effect of the business combination. We will adopt this new standard for fiscal years beginning January 1, 2009.

In December, 2007, the FASB issued Statement No. 160 *Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51* ("SFAS 160"). This statement establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. This statement is effective prospectively, except for certain retrospective disclosure requirements, for fiscal years beginning after December 15, 2008. We are currently analyzing the effects of the new standard and its potential impact, if any, on our consolidated financial statements.

In December 2007, FASB ratified the consensus reached by EITF on EITF Issue 07-1 *Accounting for Collaborative Arrangements*, or EITF 07-1. EITF 07-1 requires collaborators to present the results of activities for which they act as the principal on a gross basis and report any payments received from (made to) other collaborators based on other applicable GAAP or, in the absence of other applicable GAAP, based on analogy to authoritative accounting literature or a reasonable, rational, and consistently applied accounting policy election. Further, EITF 07-1 clarified that the determination of whether transactions within a collaborative arrangement are part of a vendor-customer (or analogous) relationship subject to EITF 01-9, "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)." EITF 07-1 will be effective beginning on January 1, 2008. We assessed the potential impact adopting this pronouncement would have on our consolidated financial statements and have concluded that there is no material impact as of June 30, 2008.

In March 2008, the FASB issued Statement No. 161 *Disclosures about Derivative Instruments and Hedging Activities* ("SFAS 161"). This statement requires companies with derivative instruments to disclose information that should enable financial statement users to understand how and why a company uses derivative instruments, how derivative instruments and related hedged items are accounted for under FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and how derivative instruments and related hedged items affect a company's financial position, financial performance and cash flows. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The adoption of this statement is not expected to have a material effect on our financial position or results of operations.

In May 2008, the FASB issued Statement No. 162, *The Hierarchy of Generally Accepted Accounting Principles* ("SFAS 162"). SFAS 162 identifies a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with U.S. generally accepted accounting principles for nongovernmental entities (the "Hierarchy"). The Hierarchy within SFAS 162 is consistent with that previously defined in the AICPA Statement on Auditing Standards No. 69, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles* ("SAS 69"). SFAS 162 is effective 60 days following the United States Securities and Exchange Commission's (the "SEC") approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*. The adoption of SFAS 162 will not have a material effect on our consolidated financial statements because we have utilized the guidance within SAS 69.

In May 2008, the FASB issued Statement No. 163, *Accounting for Financial Guarantee Insurance Contracts—an interpretation of FASB Statement No. 60* ("SFAS No. 163"). SFAS 163 requires recognition of an insurance claim liability prior to an event of default when there is evidence that credit deterioration has occurred in an insured financial obligation. SFAS 163 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and all interim periods within those fiscal years. Early application is not permitted. We expect that the adoption of SFAS 163 will not have a material effect on our consolidated financial statements.

Income Taxes

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes". FASB No. 109 requires the Company to provide a net deferred tax asset/liability equal to the expected future tax benefit/expense of temporary reporting differences between book and tax accounting methods and any available operating loss or tax credit carryforwards. The Company has available at June 30, 2008, operating loss carryforwards of approximately \$12,098,291, which may be applied against future taxable income and will expire in various years through 2025. At December 31, 2007, the company had operating loss carryforwards of approximately \$9,444,482. The increase in carryforwards for the six months ended June 30, 2008 is approximately \$2,653,809.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the unaudited condensed consolidated financial statements. Significant estimates include patent life (remaining legal life versus remaining useful life) and transactions using the Black-Scholes option pricing model, e.g., promissory notes, warrants, and stock options. Actual results could differ from those estimates.

Concentration of Credit Risk

The Company maintains its cash and cash equivalents in banks located in the United States. Bank accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000 per financial institution. At June 30, 2008, the Company did not have any of its cash balances on deposit with financial institutions in excess of the FDIC insurance limit.

Fair Value of Financial Instruments

The Company believes that the carrying amount of its cash and cash equivalents, accounts payable and accrued liabilities as of June 30, 2008 and 2007 approximate their fair values due to the short-term nature of those instruments.

Income (Loss) Per Common Share

Statement of Financial Accounting Standards No. 128, "Earnings Per Share", requires presentation of basic earnings per share ("Basic EPS") and diluted earnings per share ("Diluted EPS"). The computation of net loss per common share is based on the weighted average number of shares outstanding during each period based on the exchange ratio of shares issued in the merger. The computation of diluted earnings per common share is based on the weighted average number of shares outstanding during the period plus the common stock equivalents, which would arise from the exercise of stock options and warrants outstanding using the treasury stock method and the average market price per share during the period. At June 30, 2008, there were 8,679,813 warrants, 1,817,600 vested stock options and 3,854,900 unvested options outstanding. These options and warrants were not included in the diluted loss per share calculation because the effect would have been anti-dilutive. The weighted average number of shares prior to 2006 was calculated based on the members' contribution, as if converted to shares in the ratio of the share exchange with BTHC III.

Comprehensive Income

The Company displays comprehensive income or loss, its components and accumulated balances in its consolidated financial statements. Comprehensive income or loss includes all changes in equity except those resulting from investments by owners and distributions to owners. The Company did not have any items of comprehensive income or loss for the three months ended June 30, 2008 and 2007 or the period from inception through June 30, 2008.

3. Inventory

Inventories are stated at the lower of cost or market. Lab supplies used in the research and development process are expensed as consumed. Inventory is reviewed periodically for product expiration and obsolete inventory and adjusted accordingly. The components of inventories are as follows:

	June 30, 2008	December 31, 2007
Raw materials	\$ 56,574	\$ 33,646
Work in Process	3,268	3,270
Finished goods	172,461	138,720
	<u>\$ 232,303</u>	<u>\$ 175,636</u>

4. Property and Equipment

Property and equipment consists of the following:

	June 30, 2008	December 31, 2007
Machinery and equipment	\$ 301,505	\$ 301,246
Computer equipment	107,942	100,375
Office equipment	59,922	59,809
Leasehold improvements	188,144	177,786
	<u>657,513</u>	<u>639,216</u>
Accumulated depreciation and amortization	<u>(209,182)</u>	<u>(156,430)</u>
	<u>\$ 448,331</u>	<u>\$ 482,786</u>

5. Patent Licenses

On December 31, 2003, Lifeline entered into an *Option to License Intellectual Property* agreement with Advanced Cell Technology, Inc. ("ACT") for patent rights and paid ACT \$340,000 in option and license fees. On February 13, 2004, Lifeline and ACT amended the Option agreement and Lifeline paid ACT additional option fees of \$22,500 for fees related to registering ACT's patents in selected international countries.

On May 14, 2004, Lifeline amended the licensing agreement with ACT for the exclusive worldwide patent rights for the following ACT technologies: Infige IP, UMass IP and ACT IP, which terms are summarized below. The license fees aggregate a total of \$400,000 and were secured by separate convertible promissory notes. The notes bear no interest unless they are not repaid at maturity, in which event they shall thereafter bear interest at an annual rate equal the lesser of 10% or the maximum non-usurious rate legally allowed. The note could be converted at the option of ACT into the first equity financing of Lifeline with cash proceeds in excess of \$5,000,000 under the following conditions: i) Upon the consummation of the First Equity Financing; or ii) Immediately prior to the closing of any merger, sale or other consolidation of the Company or of any sale of all or substantially all assets of the Company which occurs prior to the First Equity Financing (an "Acquisition Event"). Notwithstanding the above, and only in the event that a conversion resulting from such Acquisition Event would result in a security not traded on a national stock exchange (including NASDAQ and NASDAQ Capital market), upon written notice to the Company not later than five days after the consummation of the Acquisition Event and notice of the Acquisition Event to the holder of the note, the holder may elect to receive payment in cash of the entire outstanding principal of this Note. On December 21, 2006, ACT elected to receive payment in cash in lieu of conversion of the notes, which was paid in full.

The Company still maintains an obligation to pay royalties and other fees in accordance with the following schedule:

	Infigen IP	UMass IP	ACT IP
License fee	\$ 25,000	\$ 150,000	\$225,000
Royalty rates	6%	3% to 12%	3% to 10%
Minimum royalties			
At 12 months	\$ 7,500	\$ 15,000	\$15,000
At 24 months	\$ 7,500	\$ 30,000	\$37,500
At 36 months	\$ 6,875	\$ 45,000	\$60,625
Annually thereafter	\$ 15,000	\$ 60,000	\$75,000
Milestone payments			
First commercial product	\$ 250,000	\$ 250,000	\$250,000
Sales reaching \$5,000,000	\$ 500,000	\$ 500,000	\$500,000
Sales reaching \$10,000,000	\$ 1,000,000	\$ 1,000,000	\$1,000,000

6. Convertible debt and Advances

Convertible debt

On May 14, 2008, to obtain funding for working capital, International Stem Cell Corporation (the "Company") entered into a Securities Purchase Agreement with an accredited investor (Gemini Capital) for the issuance (for total consideration of \$830,000 minus certain expenses of the purchaser) of an OID Senior Secured Convertible Note and warrants. The note was for \$1,000,000 (and was issued with a 15% original issue discount) and is due and payable on or before January 31, 2009. The note is convertible into shares of common stock of the company at the rate of \$0.50 per share. The note is guaranteed by the subsidiaries of the Company and secured by certain patents and patent applications. Warrants were issued which permit the holder to purchase up to 2,000,000 shares of common stock from the Company at \$0.50 per share until five years from the issuance of the warrants. The note and the warrants contain anti-dilution clauses whereby, (subject to the exceptions contained in those instruments) if the Company issues equity securities or securities convertible into equity at a price below the respective conversion price of the note or exercise price of the warrant, such conversion and exercise prices shall be adjusted downward to equal the price of the new securities.

In accordance with EITF 98-05, "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratio Abstract", the Company allocated the \$830,000 proceeds according to the value of the convertible note and the warrants based on their relative fair values. Fair value of the warrants was determined using the Black-Scholes valuation model using risk-free interest rate of 3.22%, volatility rate of 59.5%, term of five years, and exercise price of \$0.50.

In accordance with EITF 00-27, "Application of Issue No. 98-5 to Certain Convertible Instruments", the reduction in proceeds, value of the beneficial conversion feature, and value of the warrants amounting to \$170,000, \$216,117 and \$266,117, respectively, have been recorded as a discount to convertible notes and are being amortized over the term of the notes using the straight-line method. For the six months ended June 30, 2008, amortization of the discount was \$30,496, \$38,769 and \$47,738, respectively. Unamortized debt discount as of June 30, 2008 are \$139,504, \$177,348 and \$218,379, respectively.

Advance

On June 18, 2008, the Company entered into an agreement with BioTime, Inc. ("Bio Time"), where Bio Time will pay an advance of \$250,000 to LifeLine Cell Technology ("Lifeline"), a wholly owned subsidiary of International Stem Cell Corporation, to produce, make, and distribute Joint Products. The \$250,000 advance will be paid down with the first \$250,000 of net revenues that otherwise would be allocated to Lifeline under the agreement. As of June 30, 2008 no revenues were realized from this agreement.

	June 30, 2008	December 31, 2007
Gemini Capital, net of debt discount of \$535,231	\$ 464,769	\$ -
Bio Time, Inc	250,000	-
	<u>\$ 714,769</u>	<u>\$ -</u>

7. Related Party Payables

The Company has incurred obligations to the following related parties:

	June 30, 2008	December 31, 2007
Management fee	\$ 251,917	\$ 249,778
Management Loan	125,000	500,000
	<u>\$ 376,917</u>	<u>\$ 749,778</u>

SeaCrest Capital and SeaCrest Partners are controlled by Mr. Adams and Mr. Aldrich, YKA Partners is controlled by Mr. Aldrich and the amounts represent advances to the Company for operating expenses. The management fee was paid to Mr. Adams and Mr. Aldrich, who acted as managing members of the Company (and prior to the Share Exchange of ISC California and Lifeline) for management of the Company since inception of Lifeline for an aggregate of \$10,000 per month plus accrued interest at 10% per annum on the unpaid balance. Effective June 1, 2006 the management fee was increased to \$20,000 per month. The management fee ceased on November 1, 2006, at which time Mr. Adams and Mr. Aldrich became employees of ISC.

During the quarter ended June 30, 2008, Mr. Aldrich loaned the company \$125,000, as a short-term loan until the Company secured alternative financing, at which time the Company would pay off the loan to Mr. Aldrich.

8. Capital Stock

The Company was authorized to issue 200,000,000 shares of common stock, \$0.001 par value per share, and 20,000,000 shares of preferred stock, \$0.001 par value per share. As of June 30, 2008, the Company has issued and outstanding 35,889,495 shares of common stock and 1,400,000 shares of preferred stock.

In October 2006, the board of directors of BTHC III approved a stock split of 4.42 shares to 1. As a result of the split, the outstanding common stock of BTHC III increased from 500,000 to 2,209,993 shares. Pursuant to the Share Exchange Agreement, each share of International Stem Cell Corporation common stock was exchanged for one share of BTHC III common stock. All numbers in the financial statements and notes to the financial statements have been adjusted to reflect the stock split for all periods presented.

On December 27, 2006, the Company's Board of Directors and holders of a majority of the outstanding shares approved a change in the Company's name to International Stem Cell Corporation, which change became effective in January 2007. The accompanying financial statements have been changed to reflect the change as if it had happened at the beginning of the periods presented.

In December 2006, the Company issued 1,350,000 shares of common stock, 350,000 of such shares in consideration for legal consulting services relating to the reverse merger and 1,000,000 shares in consideration for a contract to provide investor relations services which commenced September 1, 2006 for a period of one year.

In November and December of 2006, ISC California commenced its Brookstreet financing and issued 9,880,950 shares of common stock for cash at \$1.00 per share for net proceeds after commissions and expenses of \$8,334,551, net of cash expenses which totaled \$1,547,433. In addition, ISC California issued 555,555 shares of common stock for \$500,000.

In January and February 2007, ISC California completed the Brookstreet financing and issued 1,370,000 shares of common stock that was part of a private placement of securities by ISC California during the second half of 2006. The net proceeds from the shares whose sale was finalized in 2007 and was \$1,157,125 net of cash fees and expenses. In connection with the final settlement in 2007, the selling agent for the private placement received 274,000 additional warrants, which entitle the holder thereof to purchase the number of shares of common stock for \$1.00 each.

On January 15, 2008, to raise funds, the Company entered into a subscription agreement (the "Agreement") with accredited investors (the "Investor") for the sale between one million and five million of Series A Preferred Stock ("Preferred"). Units consists of one share of Preferred and two Warrants ("Warrants") to purchase Common Stock for each \$1.00 invested. The Preferred was convertible into shares of common stock at market price on the date of the first finance closing, but not to exceed \$1 per share and the warrants are exercisable at \$0.50 per share. The Preferred has an Anti-dilution clause whereby, if the Company issues \$1 million or more of equity securities or securities convertible into equity at a price below the respective exercise prices of the Preferred or the Warrant shall be adjusted downward to equal the price of the new securities. The Preferred has priority on any sale or liquidation of the Company equal to the purchase price of the Units, plus a liquidation premium of 6% per year. If the Company elects to declare a dividend in any year, it must first pay to the Preferred a dividend of the amount of the dividend the Preferred holder would receive if the shares were converted just prior to the dividend declaration. Each share of Preferred has the same voting rights as the number of shares of Common Stock into which it would be convertible on the record date.

On May 12, 2008, to obtain funding for working capital, the Company entered into a series of subscription agreements (the "Agreements") with a total of five accredited investors (the "Investors") for the sale of a total of 400,000 Units, each Unit consisting of one share of Series B Preferred Stock ("Preferred") and two Warrants ("Warrants") to purchase Common Stock for each \$1.00 invested. The total purchase price received by the Company was \$ 400,000. The Preferred is convertible into shares of common stock at the initial conversion ratio of two shares of common stock for each share of Preferred converted (which was established based on an initial conversion price of \$0.50 per share), and the warrants are exercisable at \$0.50 per share until five years from the issuance of the warrants. The Preferred and Warrants contain anti-dilution clauses whereby, (subject to the exceptions contained in those instruments) if the Company issues equity securities or securities convertible into equity at a price below the respective conversion price of the Preferred or the exercise price of the Warrant, such conversion and exercise prices shall be adjusted downward to equal the price of the new securities. The Preferred has a priority (senior to the shares of common stock, but junior to the shares of Series A Preferred Stock) on any sale or liquidation of the Company equal to the purchase price of the Units, plus a liquidation premium of 6% per year. If the Company elects to declare a dividend in any year, it must first pay to the Preferred holder a dividend equal to the amount of the dividend the Preferred holder would receive if the Preferred were converted just prior to the dividend declaration. Each share of Preferred has the same voting rights as the number of shares of Common Stock into which it would be convertible on the record date.

The following discussion of our financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements and related notes and other financial information included elsewhere herein. This information should also be read in conjunction with our audited historical consolidated financial statements which are included in our Form 10-KSB for the fiscal year ended December 31, 2007. The discussion contains forward-looking statements based upon current expectations that involve risks and uncertainties, such as our plans, expectations and intentions. Our actual results may differ significantly from management's expectations and may vary based on the risks associated with related development progress and other risks discussed in more detail in our Form 10-KSB. This discussion should not be construed to imply that the results discussed herein will necessarily continue into the future, or that any conclusion reached herein will necessarily be indicative of actual operating results in the future. Such discussion represents only our management's best present assessment.

Overview

We were originally incorporated in Delaware on June 7, 2005 as BTHC III, Inc. to effect the reincorporation of BTHC III, LLC, a Texas limited liability company, mandated by a plan of reorganization. Pursuant to the plan of reorganization, an aggregate of 500,000 shares of our common stock were issued to holders of administrative and tax claims and unsecured debt, of which 350,000 shares were issued to Halter Financial Group. The plan of reorganization required BTHC III, Inc. to consummate a merger or acquisition prior to June 20, 2007. Until the Share Exchange Agreement described below, BTHC III, Inc. conducted no operations. In October 2006, BTHC III, Inc. effected a 4.42-for-one stock split with respect to the outstanding shares of common stock.

On December 28, 2006, pursuant to a Share Exchange Agreement, BTHC III, Inc. issued 33,156,502 shares of common stock, representing approximately 93.7% of the common stock outstanding immediately after the transaction, to the shareholders of International Stem Cell Corporation, a California corporation ("ISC California"), in exchange for all outstanding stock of ISC California. This transaction is being accounted for as a "reverse merger" for accounting purposes. Consequently, the assets and liabilities and the historical operations that are reflected in our financial statements are those of ISC California.

ISC California was incorporated in California in June 2006 for the purpose of restructuring the business of Lifeline Cell Technology, LLC, which was organized in California in August 2001. As a result of the restructuring, Lifeline became wholly-owned by ISC California, which in turn is wholly-owned by us. All of our current operations are conducted by Lifeline. Our principal executive offices are located at 2595 Jason Court, Oceanside, California 92056, and our telephone number is (760) 940-6383.

Results of Operations

Revenues

We are a development stage company and as such have generated nominal revenues. For the three months ended June 30, 2008, our product sales increased to \$122,303, compared to \$3,355 for the three months ended June 30, 2007. The primary reason for the increase is due to a collaboration agreement we signed in the second quarter to provide stem cells, which resulted in revenue in the second quarter of \$60,000. The remaining increase is due to the increased marketing dollars spent on advertising and increased efforts by our sales and marketing team as well as our marketing consultants promoting our products.

For the six months ended June 30, 2008, our product sales increased to \$154,635 of product revenue, compared to \$5,181 for the six months ended June 30, 2007. The primary reason for the increase is due to a collaboration agreement we signed in the second quarter to provide stem cells, which resulted in revenue in the second quarter of \$60,000, as well as, an increase in marketing dollars spent on advertising and increased efforts by our sales and marketing team as well as our marketing consultants promoting our products.

General and Administrative Expenses

General and administrative expenses were \$999,688 for the three months ended June 30, 2008, an increase of \$29,183 or 3%, compared to \$970,505 for the three months ended June 30, 2007. This increase in expenses for the quarter was primarily due to a one time charge of deferred compensation in the amount of \$95,656 for options that we accelerated vesting and common stock issued during the quarter which resulted in \$95,549 of common stock issued for services. The increase in general and administrative expenses for the quarter was offset in part due to our efforts to reduce costs, primarily in consulting and salaries expense, based on our current cash position.

General and administrative expenses were \$1,885,347 for the six months ended June 30, 2008, an increase of \$269,686 or 17%, compared to \$1,615,661 for the six months ended June 30, 2007. The reason for this increase is primarily due to a one time charge of deferred compensation in the amount of \$576,384 for options that we accelerated vesting, as well as a charge for common stock issued during the quarter which resulted in \$95,549 of common stock issued for services. The increase in general and administrative expenses for the quarter was off set in part due to our efforts to reduce costs, primarily in consulting and salaries expense, based on our current cash position.

Research and Development

Research and development expenses were \$662,922 for the three months ended June 30, 2008, an increase of \$107,225, or 19% compared to \$555,697 for the three months ended June 30, 2007. The increase is primarily due to an increase in research costs related to our contract services related to our collaboration with the research laboratory here in the U.S and in Russia.

Research and development expenses were \$1,250,963 for the six months ended June 30, 2008, an increase of \$59,323, or 5%, compared to \$1,191,640 for the six months ended June 30, 2007. The increase is primarily due to increased research costs related to our contract services related to our collaboration with the research laboratory in the U.S. and in Russia.

Research and development expenses are expensed as they are incurred, and are not yet accounted for on a project by project basis since, to date, all of our research has had potential applicability to each of our projects.

Marketing Expense

Marketing expenses were \$78,647 for the three months ended June 30, 2008, a decrease of \$128,411, compared to \$207,058, or 62%, for the three months ended June 30, 2007. This significant decrease was due to our cost cutting measures to manage our current cash position. The areas affected by these cost cutting measures were marketing consultants and the cost of advertising.

Marketing expenses were \$227,994 for the six months ended June 30, 2008, a decrease of \$43,052, compared to \$271,046, or 16%, for the six months ended June 30, 2007. This significant decrease was due to our cost cutting measures to manage our current cash position. The areas affected by these cost cutting measures were marketing consultants and the cost of advertising.

Liquidity and Capital Resources

At June 30, 2008, we had a decrease in cash of \$129,160 for the six month period ended June 30, 2008, resulting from \$2,561,821 cash used in operating activities and \$47,339 used in investment activities, offset by \$2,480,000 of cash provided by our financing activities. The funds generated from financing activities during 2008 were used mainly to support our operating losses.

Operating Cash Flows

Net cash used in operating activities of \$2,561,821 for the six months ended June 30, 2008 was primarily attributable to a net loss of \$3,411,118, however, the Company did secure short term borrowings and advances totaling approximately \$1,080,000 from two different sources. The adjustments to reconcile the net loss to net cash used in operating activities include depreciation and amortization expense of \$79,486, non-cash stock option expense of \$576,384, common stock issued for services of \$95,549, an increase in inventory of \$56,667, a decrease in prepaid assets of \$21,877, an increase in accounts payable of \$437,688, a decrease in accrued expenses of \$1,522, and a decrease in related party payables of \$372,861, attributable to repayments. The major portion of this increase in cash used resulted from increased spending in general and administrative expenses.

Investing Cash Flows

Net cash used in investing activities of \$47,339 for the six months ended June 30, 2008 was primarily attributable to purchases of property and equipment of \$18,298 consisting primarily of laboratory equipment for use in a variety of research projects, and payments for patent licenses of \$29,041.

Financing Cash Flows

Net cash provided by financing activities of approximately \$2,480,000 for the six months ended June 30, 2008 was attributable to closing the Series A and B Preferred Stock financings of \$1,400,000 and proceeds from convertible debt of \$830,000 and advances of \$250,000.

Management is currently reviewing different financing sources to raise working capital to help fund our current operations. We will need to obtain significant additional capital resources from sources including equity and/or debt financings, license arrangements, grants and/or collaborative research arrangements in order to develop products. Thereafter, we will need to raise additional working capital. The timing and degree of any future capital requirements will depend on many factors, including:

- the accuracy of the assumptions underlying our estimates for capital needs in 2008 and beyond;
- scientific progress in our research and development programs;
- the magnitude and scope of our research and development programs and our ability to establish, enforce and maintain strategic arrangements for research, development, clinical testing, manufacturing and marketing;
- our progress with preclinical development and clinical trials;
- the time and costs involved in obtaining regulatory approvals;
- the costs involved in preparing, filing, prosecuting, maintaining, defending and enforcing patent claims; and
- the number and type of product candidates that we pursue.

Additional financing through strategic collaborations, public or private equity financings or other financing sources may not be available on acceptable terms, or at all. Additional equity financing could result in significant dilution to our stockholders. Additional debt financing may be expensive and require us to pledge all or a substantial portion of our assets. Further, if additional funds are obtained through arrangements with collaborative partners, these arrangements may require us to relinquish rights to some of our technologies, product candidates or products that we would otherwise seek to develop and commercialize on our own. If sufficient capital is not available, we may be required to delay, reduce the scope of or eliminate one or more of our product lines.

We do not currently have any obligations for milestone payments under any of our licensed patents other than annual payments of \$150,000 due annually in May, plus payments that are specifically related to sales and are therefore unpredictable as to timing and amount. Royalties on sales range of 3% to 12%, and milestone payments do not begin until our first therapeutic product is launched. No licenses are terminable at will by the licensor. For further discussion of our patents, see Note 5 to our condensed consolidated financial statements.

Off-Balance Sheet Arrangements

There were no off-balance sheet arrangements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable to smaller reporting companies.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures. The Securities and Exchange Commission defines the term "disclosure controls and procedures" to mean company's controls and other procedures that are designed to ensure that information required to be disclosed in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms. Our chief executive officer and our chief financial officer have concluded, based on the evaluation of the effectiveness of our disclosure controls and procedures by our management, with the participation of our chief executive officer and our chief financial officer, as of the end of the period covered by this report, that our disclosure controls and procedures were effective for this purpose.

Changes in Internal Controls Over Financial Reporting. There was no change in our internal control over financial reporting for the six months ended June 30, 2008 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

It should be noted that any system of controls, however well designed and operated, can provide only reasonable assurance, and not absolute assurance, that the objectives of the system are met. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of future events. Because of these and other inherent limitations of control systems, there can be no assurance that any design will succeed in achieving its stated goals in all future circumstances.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

Not Applicable

Item 1A. Risk Factors

Not applicable to smaller reporting companies.

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

Previously reported on form 8-K, filed on January 15, 2008.

Previously reported on form 8-K, filed on May 14, 2008.

Item 3. Defaults Upon Senior Securities.

Not Applicable

Item 4. Submission of Matters to a Vote of Security Holders.

The Company had two matters that required the vote of the security holders during its annual shareholder’s meeting held on April 22, 2008. The Security holders voted to elect the entire board of directors and ratified Vasquez and Company LLP as the Company’s registered public accountants. The vote results were as follows:

To elect of the board of director:

Donald A. Wright	Votes for: 23,736,097; Votes Against 37,500; Abstain: 59,085
Paul V. Maier	Votes for: 23,736,097; Votes Against 37,500; Abstain: 59,085
Edward O. Hunter	Votes for: 23,736,097; Votes Against 37,500; Abstain: 59,085
Kenneth C. Aldrich	Votes for: 23,736,097; Votes Against 37,500; Abstain: 59,085
William B. Adams	Votes for: 23,736,097; Votes Against 37,500; Abstain: 59,085
Jeffrey D. Janus	Votes for: 23,736,097; Votes Against 37,500; Abstain: 59,085

To ratify Vasquez and Company LLP Votes for: 23,736,097; Votes against 37,500; Abstain: 59,085

Item 5. Other Information.

Not Applicable

Item 6. Exhibits.

Exhibit Number	Description
3.1	Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit 3.4 of the Registrant's Form 10-SB filed on April 4, 2006).
3.2	Certificate of Amendment of Certificate of Incorporation (incorporated by reference to Exhibit 3.1 of the Registrant's Preliminary Information Statement on Form 14C filed on December 29, 2006).
3.3	Amended and Restated Bylaws of the Registrant (incorporated by reference to Exhibit 3.2 of the Registrant's Preliminary Information Statement on Form 14C filed on December 29, 2006).
4.1	Form of Specimen Common Stock Certificate (incorporated by reference to Exhibit 4.1 of the Registrant's Annual Report on Form 10-KSB filed on April 9, 2007).
4.2	Form of Lifeline Warrant (incorporated by reference to Exhibit 4.1 of the Registrant's Form 8-K filed on December 29, 2006).
4.3	Form of Lifeline Warrant held by ISC Bridge lenders (incorporated by reference to Exhibit 4.2 of the Registrant's Form 8-K filed on December 29, 2006).
4.4	Placement Agents Warrant (incorporated by reference to Exhibit 4.3 of the Registrant's Form 8-K filed on December 29, 2006).
4.5	Certificate of designation or rights, preferences, privileges and restrictions of series A Preferred Stock of International Stem Cell Corporation dated January 15, 2008.
4.6	Certificate of designation or rights, preferences, privileges and restrictions of series B Preferred Stock of International Stem Cell Corporation dated May 12, 2008.
10.1	Subscription Agreement dated January 15, 2008 and May 12, 2008.
10.2	Form of Warrant Certificate dated January 15, 2008.
10.3	Form of Warrant Certificate dated May 12, 2008.
31.1	Rule 13a-14(a)/15d-14a(a) Certification of Chief Executive Officer.
31.2	Rule 13a-14(a)/15d-14a(a) Certification of Chief Financial Officer.
32.1	Section 1350 Certification of Chief Executive Officer.
32.2	Section 1350 Certification of Chief Financial Officer.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

INTERNATIONAL STEM CELL CORPORATION

Dated: August 14, 2008

By: /s/ Kenneth C. Aldrich

Name: Kenneth C. Aldrich

Title: Chief Executive Officer and Director

By: /s/ William B. Adams

Name: William B. Adams

Title: Chief Financial Officer (Principal Financial Officer and
Principal Accounting Officer) and Director

CERTIFICATION PURSUANT TO
FORM OF RULE 13a-14(a)
AS ADOPTED PURSUANT TO
SECTION 302(A) OF THE SARBANES-OXLEY ACT OF 2002

I, Kenneth C. Aldrich, Chief Executive Officer of International Stem Cell Corporation, certify that:

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

Date: August 14, 2008

By: /s/ Kenneth C. Aldrich
Kenneth C. Aldrich
Chief Executive Officer

CERTIFICATION PURSUANT TO
FORM OF RULE 13a-14(a)
AS ADOPTED PURSUANT TO
SECTION 302(A) OF THE SARBANES-OXLEY ACT OF 2002

I, Kenneth C. Aldrich, Chief Executive Officer of International Stem Cell Corporation, certify that:

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

Date: August 14, 2008

By: /s/ William B. Adams
William B. Adams
Chief Financial Officer

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q (the "Report") of International Stem Cell Corporation (the "Company") for the six months ended June 30, 2008, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Kenneth C. Aldrich, Chief Executive Officer of the Company, hereby certify pursuant to 18 U.S.C. Section 1350, that as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to my knowledge:

- (1) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 14, 2008

By: /s/ Kenneth C. Aldrich
Kenneth C. Aldrich
Chief Executive Officer

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q (the "Report") of International Stem Cell Corporation (the "Company") for the six months ended June 30, 2008, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, William B. Adams, Chief Financial Officer of the Company, hereby certify pursuant to 18 U.S.C. Section 1350, that as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to my knowledge:

- (1) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 14, 2008

By: /s/ William B. Adams
William B. Adams
Chief Financial Officer

