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

FORM 10-K

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

For the fiscal year ended December 31, 2009

☐ **TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission File No. 0-51891

INTERNATIONAL STEM CELL CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	**20-4494098**
(State of other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**
2595 Jason Court Oceanside, CA	**92056**
(Address of principal executive offices)	**(Zip Code)**

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

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

Title of each class	**Name of each exchange on which registered**
None	**None**

Securities registered pursuant to section 12(g) of the Act:

Common Stock, $0.001 par value per share
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes ☐ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulations S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Park III of this Form 10-K or any amendment to this Form 10-K. ☒

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	☐ (Do not check if a smaller reporting company)	Smaller reporting company	☒

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter. The aggregate market value of voting and non-voting common equity held by non-affiliates of the registrant was approximately $31,345,000 based upon the closing price of the common stock on June 30, 2009 on the OTC Bulletin Board. Shares of common stock held by each officer, director and holder of five percent or more of the outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date. As of March 3, 2009 there were 62,369,033 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Information from the registrant's definitive Proxy Statement for its Annual meeting of Stockholders in 2010 is incorporated by reference into Part III of this Form 10-K.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements. For example, statements regarding our financial position, business strategy and other plans and objectives for future operations, and assumptions and predictions about future product demand, marketing, expenses and sales are all forward-looking statements. These statements may be found in the items of this Annual Report entitled "Description of Business" and "Management's Discussion and Analysis or Results of Operations," as well as in this Annual Report generally. These statements are generally accompanied by words such as "intend," "anticipate," "believe," "estimate," "potential(ly)," "continue," "forecast," "predict," "plan," "may," "will," "could," "would," "should," "expect," or the negative of such terms or other comparable terminology.

We have based these forward-looking statements on our current expectations and projections about future events. We believe that the assumptions and expectations reflected in such forward-looking statements are reasonable, based on information available to us on the date hereof, but we cannot assure you that these assumptions and expectations will prove to have been correct or that we will take any action that we may presently be planning. However, these forward-looking statements are inherently subject to known and unknown risks and uncertainties. Actual results or experience may differ materially from those expected or anticipated in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, regulatory policies, competition from other similar businesses, market and general economic factors, and the other risks discussed in Item 1A of this Annual Report. This discussion should be read in conjunction with the consolidated financial statements and notes thereto included in this Annual Report.

We have identified some of the important factors that could cause future events to differ from our current expectations and they are described in this Annual Report in the section entitled "Risk Factors" which you should review carefully. Please consider our forward-looking statements in light of those risks as you read this Annual Report. If one or more of these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may vary materially from what we project. We do not undertake, and specifically decline any obligation, to update any forward-looking statements or to publicly announce the results of any revisions to any statements to reflect new information or future events or developments.

PART I

ITEM 1. BUSINESS

Business Overview

We are a biotechnology company focused on therapeutic, biomedical research and cosmeceutical products.

We have two sets of therapeutic objectives. We are building a bank of clinical-grade human stem cells called the "UniStemCell™ Bank" that are immune-matched to large segments of the population. The second objective is to create an unlimited source of immune-matched human cells for use in the treatment of a set of specific diseases, including corneal, retinal, liver and diabetes through cell transplant therapy. In furtherance of these objectives, we are developing: (i) a new class of pluripotent stem cells that have comparable function but a different derivation process from embryonic stem ("hES") cells, (ii) techniques to cause those cells to be differentiated into the specific cell types required for transplantation, and (iii) facilities and manufacturing protocols to produce these cells without contamination with animal by-products in compliance with the requirements of the US Food and Drug Administration ("FDA") and other regulatory authorities. While our stem cell lines are comparable to hES cell lines in that they have the potential to be differentiated into many different cells in the human body, the development of our cell lines creates cells that can be immune-matched to large segments of the population and does not require the use of fertilized eggs or the destruction of any viable human embryos.

Our wholly-owned subsidiary Lifeline Cell Technology (LCT) creates, manufactures and sells research products to culture human cells. Lifeline generates revenue and provides cell manufacturing knowledge and infrastructure to support our long term therapeutic objectives.

Our wholly-owned subsidiary Lifeline Skin Care (LSC) creates cosmetic skin care products derived from our human cell technologies. Our objective is for LSC to develop, manufacture and distribute cosmetic skin care products and generate product revenues to help support our long term therapeutic objectives.

According to the National Institutes of Health, research on stem cells is advancing knowledge about how tissues and organisms develop from a single cell and how healthy cells derived from a single precursor cell may replace damaged cells in adult organisms. This area of science is also leading scientists to investigate the possibility of cell-based therapies to treat disease, which is often referred to as regenerative medicine. Today, donated organs and tissues are often used to replace ailing or destroyed tissue, but the need for transplantable tissues and organs far outweighs the available supply. Stem cells, directed to differentiate into specific cell types, offer the possibility of a renewable source of replacement cells and tissues to treat a wide range of diseases.

Pluripotent stem cells are undifferentiated primary cells with potential to become any tissue or cell of the body. However, stem cell therapies have technical, ethical and legal hurdles to overcome before they may be used for tissue, cell or organ repair. To realize the promise of cell-based therapies for disease treatment, scientists must be able to manipulate stem cells so that they possess the necessary characteristics for successful differentiation, transplantation and engraftment. The following list illustrates some of the major steps scientists must learn to control precisely in order for successful cell-based treatments to be put to successful clinical use. For transplant purposes, stem cells must be reproducibly made to:

- proliferate extensively and generate sufficient quantities of stem cells;
- differentiate into the desired cell type(s) and generate sufficient quantities of those cell types;
- survive in the recipient after transplant;
- integrate into the surrounding tissue after transplant;
- function appropriately;
- avoid harming the recipient;
- avoid or reduce the problem of immune rejection; and
- be an economic method of treating disease.

We believe that the market for our products will be substantial given the current limited supply of human cells required to make transplants possible, the need for cells that will not be rejected, and the need for cells produced without contamination by animal by-products and the need for an economical solution to providing cells for transplant. Addressing these core issues will provide an excellent opportunity for the commercialization of our products.

During 2007 and 2008, ISCO published two seminal works in the peer reviewed journal "Cloning and Stem Cells" that announced and described the first intentional creation of human parthenogenetic stem cells. These papers form the basis of ISCO's technology and its intellectual property. The importance of this work is best described in the following quote by Professor Sir Ian Wilmut, Director of the MRC Centre for Regenerative Medicine at the University of Edinburgh and best known as the leader of the research group that in 1996 first cloned a Dolly the sheep from an adult somatic cell, "This study has used a novel approach to producing cells that may one day be used to treat large numbers of patients. While there is a great deal of discussion about the possibility of producing stem cells for each patient this approach to therapy is unrealistic because of the enormous costs involved. Rather it is likely that treatment of large numbers of patients by cell therapy will only be possible if methods are found using any one cell line to treat very large numbers of patients. This very exciting paper represents a significant step forward towards the use of such cells in cell therapy," Sir Wilmut went on to note, "Immune reaction is one of the most serious problems facing the development of stem cell therapy, and cell lines of this type may enable us to treat a large number of patients without immune rejection, offering an enormous practical advantage. Further research is required to confirm that the cells produced in this way are able to replace cells that have been lost in human degenerative disease."

In addition to therapeutic cell transplantation efforts, we are engaged in development, production and sale of specialty research products. These are cell systems, media and reagents for use in stem cell and other medical research by academic institutions, government entities and commercial research companies. The sale of these research and skin care products are expected to provide us with revenue to support a portion of the development of therapeutic products.

History

We were incorporated in Delaware on June 7, 2005 under the name 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 the consummation of 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. affected a 4.42-for-one stock split with respect to the outstanding shares of common stock. After giving effect to the stock split and eliminating fractional shares, there were 2,209,993 shares of common stock outstanding.

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. As a result of this transaction, ISC California became wholly-owned by us. This transaction was 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 and its subsidiary. On January 29, 2007, we changed our name to International Stem Cell Corporation and in connection therewith our trading symbol changed to ISCO.OB.

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. 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.

Lifeline Skin Care, LLC ("SkinCare") was formed in the State of California on June 5, 2009 and is a wholly-owned subsidiary ISC California. SkinCare creates cosmetic skin care products derived from our human cell technologies and will develop, manufacture and distribute cosmeceutical products.

Frequently Asked Questions

What are Stem Cells?

Cells are the basic living units that make up humans, animals, plants and other organisms. Stem cells have two important characteristics that distinguish them from other types of cells. First, they can renew themselves for long periods of time. Second, they are unspecialized and under certain conditions can be induced to become cells with special functions such as metabolically active cells of the liver or transparent and protective cells of the eye. Until recently, scientists have worked with two major kinds of stem cells, *embryonic stem cells* and *adult stem cells* that each has different functions and characteristics. We have developed a third category of stem cells named *parthenogenetic stem cells* (also sometimes called parthenogenic stem cells) that promise to have significant therapeutic advantages relative to these other classes.

What are Pluripotent Stem Cells?

Pluripotent stem cells are able to be differentiated or developed into virtually any other cell made in an organism. Both embryonic and parthenogenetic stem cells are pluripotent. Some scientists are exploring manipulation of adult stem cells in to a potentially pluripotent stage. The class of stem cells is called *induced pluripotent stem cells.*

What are Embryonic Stem Cells?

Embryonic stem cells are derived from embryos at an early stage, typically when they are in a structure of a small number of cells called the *blastocyst.* Embryonic stem cells are purified and expanded in a laboratory cell culture process. Once cell lines are established, batches of them can be frozen and shipped to other laboratories for further culture and experimentation.

What are Adult Stem Cells?

An adult stem cell is an undifferentiated cell found among differentiated cells in a tissue or organ. An adult stem cell can renew itself (generally to a lesser degree than can embryonic or parthenogenetic stem cells) and differentiate to a limited number of specialized cell types. These cells can be isolated from different tissues such as the bone marrow, fat tissue, and umbilical cord blood.

Why are Embryonic Stem Cells Important?

Human embryonic stem cells are able to differentiate into virtually any other cell in the body and to reproduce themselves almost indefinitely. In theory, if stem cells can be grown and their development directed in culture, it would be possible to grow cells for the treatment of specific diseases.

An early potential application of human embryonic stem cell technology may be in drug screening and toxicology testing.

The study of human development may also benefit from embryonic stem cell research in that understanding the events that occur at the first stages of development has potential clinical significance for preventing or treating birth defects, infertility and pregnancy loss. The earliest stages of human development have been difficult or impossible to study. Human embryonic stem cells offer insights into developmental events that cannot be studied directly in humans or fully understood through the use of animal models.

What are Parthenogenetic Stem Cells and how are they different?

Parthenogenetic stem cells are pluripotent stem cells created from unfertilized human eggs through a process called “parthenogenesis”. Parthenogenesis requires that an unfertilized human egg be “activated” by chemical or physical means. Activation results in a non-viable “parthenogenic embryo” from which pluripotent parthenogenetic stem cell lines can be derived. The cells and cell lines used by International Stem Cell Corporation are differentiated cells derived from those lines. Our research is based on perfecting proprietary techniques for deriving stem cells through parthenogenesis that result in stem cell lines that have the same capacity to become all cells found in the human body (as with embryonic stem cells) yet do not require use or destruction of a viable human embryo. Furthermore, parthenogenetic stem cells can be produced in a simplified (“homozygous”) form that enables each line to be an immunological match for millions of people,

From the parthenogenetic stem cell lines we have created, we will conduct research to develop specialized cells (such as liver, pancreatic, corneal and retinal cells) needed for transplantation. We do not obtain stem cells from fetal tissue nor does our technology require the use of discarded frozen human embryos. We do not anticipate using such sources of stem cells in the future.

Why Not Use Stem Cells Derived from Adults?

There are several approaches now in human clinical trials that utilize adult stem cells. However, these cells have limited availability and limited ability to proliferate in culture. Therefore, obtaining clinically significant amounts of adult stem cells may prove to be difficult.

What is Therapeutic Cloning?

Cloning is the natural process of cell division to make exact copies of a cell. Cloning to make cells for medical use is called "therapeutic cloning." Therapeutic cloning is different from cloning an entire animal, which is called "reproductive cloning." Therapeutic cloning never creates a complete human being or animal, it solely creates tissues or cells needed for medical use. We work only in the field of therapeutic cloning.

Why is Stem Cell Research Controversial?

The sources of some types of stem cells cause social and religious controversy. For example, some scientists obtain stem cells from aborted fetal tissue, causing opposition from those opposed to abortion. Another controversial source of stem cells is residual frozen human embryos (from fertilized human eggs) that remain after vitro fertilization procedures and are used to create embryonic stem cell lines.

Is Stem Cell Research Banned in the US?

Embryonic stem cell research, in general, is not banned in the US. Work by private organizations is not restricted except by the restrictions applicable to all human research. In addition, Proposition 71 in California, which voters approved in November 2004, specifically allows state funds to be used for stem cell research.

Why Not Use the Currently "Approved" Embryonic Stem Cells Lines?

Many of the previously approved human embryonic stem cell lines were produced using methods that exposed them to animal protein and animal cells, which may make them unsuitable for human therapeutic purposes and restrict their utility even for research into human disease. We have developed technologies to create human embryonic stem cell lines that will be free of non-human materials.

In addition, most if not all, human embryonic stem cell lines in research now have complex ("heterozygous") immune compositions that are likely to cause the differentiated cells to be rejected by most patients.

Why Not use Adult Cells Reprogrammed to become Pluripotent Cells?

Induced pluripotent cells ("iPSs") benefit from not being derived from human embryos but may face a number of other limitations such as short life span, poor stability, uncertainty as to which genes are turned on and off, etc. Furthermore, like embryonic stem cells, iPSs have complex ("heterozygous") immune compositions that are likely to cause the differentiated cells to be rejected by most patients.

Ethical Issues

The use of embryonic stem cells derived from fertilized human eggs has created an ethical debate in the US and around the world. However, since no fertilized human eggs are used in creating our cells and no human embryo is being created, used or destroyed, we expect that our parthenogenetic cells will resolve many of the current ethical controversies that surround traditional embryonic stem cell research.

We also have licensed worldwide rights to use a technology known as Somatic Cell Nuclear Transfer ("SCNT") to create human stem cells. The President's Council on Bioethics, as reported in the publication "Reproduction and Responsibility—The Regulation of New Biotechnologies 2004", has agreed on a series of recommendations for the use of such technology. Countries such as the United Kingdom have made similar recommendations. Although we have chosen for now to pursue our parthenogenesis technology rather than SCNT, we have implemented the relevant recommendations into our research practices and will continue to adhere to internationally accepted standards regarding the use of this technology.

Our Technology

With the assistance of our scientific founder, Elena Revazova, MD, PhD, we have developed a proprietary parthenogenesis process for the creation of a new class of stem cells that have shown to exhibit the pluripotency and proliferative benefits of embryonic stem cells yet avoid the use or destruction of fertilized human eggs ("oocytes") or embryos. Furthermore, since parthenogenetic stem cells can be created with immunogenetically identical ("homozygous") chromosome pairs, each line has potential to be an immune match for millions of patients. At least in theory, if such cells were to be differentiated into functional mature cells and stored in cell banks, they would be universally applicable for on-demand use across a wide range of medical conditions.

International Stem Cell Corporation holds licenses to two other technologies to create human pluripotent stem cells. These are SCNT technology (as mentioned previously) and a technology to create induced pluripotent stem cells ("iPS"). Each of these technologies have unique cell therapy applications, however, they are not currently within our primary areas of focus.

Our Facilities

We are building the capacity to manufacture human cells for use in pre-clinical and clinical trials and ultimately for therapeutic use through the development of our cGMP (current Good Manufacturing Practices) manufacturing laboratories in Oceanside CA. These laboratories are unique and specifically designed for the derivation of clinical-grade parthenogenetic stem cell lines for our stem cell bank and their differentiated derivatives for future clinical trials. We have retained the services of regulatory consultants and utilized the in-house expertise of our Lifeline Cell Technology staff to design and build these laboratories.

Our Products

Research Products

International Stem Cell Corporation's Lifeline subsidiary produces and sells over 75 cell culture products and is continuously adding more products to its line. These human cell-based products are used by research scientists in pharmaceutical, academic and government research organizations to study human disease and basic cell biology. These products eliminate the need for scientists to create their own cells, media and reagents or attempt to adapt "off the shelf" products to match specific experimental needs and they are superior to using animals or non-human animal cells as research tools because they are more relevant to the study of human disease. Strict quality assurance provides a high level of consistency and standardization of these products. Many Lifeline products contain low amounts of animal products (or eliminate them altogether), allowing researchers to have better control of their experiments.

When stem cell researchers seek to develop a therapeutic from either human pluripotent stem cells or adult stem cells, they seek to change ("differentiate") the cells to assume the functionality needed for a particular therapy. The challenge is to discover the proper set of culture conditions and reagents (combinations of proteins, salts, temperatures and other environmental factors) to facilitate the change and make it permanent. The resulting cells also need culture "media" (the liquid that cells are grown in) to grow and expand into therapeutic volumes. Lifeline is developing specific stem cell products to address the emerging market for human stem cell products.

Sample Lifeline products include:

- Human fibroblast cells (the cells in skin that heal wounds) and specialized medium (Fibrolife®), available as a serum-free or low serum formats for use to grow human embryonic stem cells (eliminates contamination from mouse cells) and to conduct wound-healing studies.
- Human endothelial cells (from blood vessels such as the aorta) and two types of low serum human endothelial media (VascuLife®), used by researchers to study cardiovascular disease and cancer.
- Human epidermal keratinocyte cells (skin cells) and specialized medium (DermaLife®) for use as a model to study skin disease, toxicology or basic cell biology.
- Human epidermal melanocytes (cells that produce skin pigment) and specialized medium (DermaLife-M), used by researchers to study skin disease including cancer and to test consumer products such as those for sun protection.
- Line of neural stem cells with the ability to produce neurons that can survive in low-oxygen and low glucose conditions, a product useful for the discovery of drugs for the treatment of stroke.
- Two types of media for the culture of the adult neural cells, NeuralLife™ ags NSC expansion medium kit and NeuralLife™ ags NSC differentiation medium kit.
- Human prostate cells and specialized medium (ProstaLife™) to study prostate disease including cancer.
- Human renal and bladder cells and associated media (RenaLife™) to study renal and bladder diseases.
- An assortment of many other cell culture reagents and supplements for the growth of human cells.

Products such as these are not only sold to third parties, they are essential to the development of our own therapeutic products. The manufacture and sale of research products to other researchers and businesses provides revenue, manufacturing expertise and sometimes gives us opportunities to preview stem cell work being conducted throughout the world. If one of our research products are adopted by a successful producer of therapeutic cells, we may become a supplier to the much larger therapeutic market. This latter is based on the fact that once regulatory product submissions are made to the FDA and similar authorities, the media and reagents used during development cannot be changed easily after approval and at commercial scale.

Our human cell products consist of standardized living cells, including fully functional adult cells and (non-embryonic) stem cell lines. They are provided frozen in vials containing approximately 500,000 cells each, or are plated into flasks. Each cell system is quality tested for the expression of specific markers (to assure the cells are the correct type), proliferation rate, viability, morphology and absence of pathogens. Each cell system also contains associated donor information and all informed consent requirements are followed.

In addition to our proprietary cell system, pursuant to the terms of License Agreements with Advanced Cell Technology, Inc. ("ACTC"), we can manufacture and sell embryonic stem cell products developed by ACTC. Some of the products previously owned by ACTC have been sold to BioTime, Inc. ("BTIM"), and we have rights to distribute those products also under a separate agreement with that company. Under the agreement with BTIM we intend to develop jointly stem cell products for the research market based on the ACTCellerate technology licensed from ACTC.

Lifeline brand products are currently distributed domestically through Lifeline's direct sales force, in Europe through CellSystems GmbH and in Japan through a recently established contract with Veritas Corporation. In addition, Lifeline manufactures cell culture products under OEM contracts with American Type Culture Collection (ATCC), Millipore Corporation and Invitrogen Corporation.

Therapeutic Products

Using our proprietary human parthenogenetic stem cells, our LifeLine products and embryonic stem cells from third parties, we are creating and exploring a range of cell types that may be useful in therapeutic treatments such as:

- Corneal-like structures grown to clear hollow spheres with a size of 8-10 mm in diameter and containing tissues and cells similar to those found in normal human corneal tissue. Portions or all of these structures may be suitable for cornea transplantation in humans. Permeability and ocular histology testing has demonstrated compatibility with natural corneas.

- Contact lenses coated with living human corneal cells for use in corneal wound healing.

- Retinal pigment epithelial ("RPE") cells in collaboration with University of California, Irvine. RPE cells may be used to treat degenerative retinal diseases.

- Liver cells ("hepatocytes") that may be used to treat a variety of congenital and acquired liver diseases. Earlier-stage research efforts explore islet cells for potential treatment of type 1 diabetes and neural cells for treatment of central nervous system disorders.

- Pancreas cells ("beta cells from the islet") that properly produce human insulin and may be useful in the treatment of diabetes.

Each of these product candidates will require extensive preclinical and clinical development at substantial cost before regulatory approval may be achieved and the products sold for therapeutic use.

Our Markets

Therapeutic Markets

Corneal disease. According to the World Health Organization, 4.9 million people worldwide suffer blindness from corneal scarring and vascularization while ocular trauma and corneal ulcerations affect close to two million people. All corneal blindness diseases may therefore affect close to 10 million people in the world combined.

The back log is particularly bad in Asia where there is tremendous shortage of cadaver-derived corneas for cultural and other reasons. Hence, India has three to four million corneally blind according to Dr. Narinder Mehra, Professor at the All India Institute of Medical Sciences ("AIIMS"). According to the Fred Hollow foundation, around 1.5 million Chinese are corneally blind and the Japan Organ Transplant Network has reported that, during a recent 10-year period, only 16,000 transplantations were performed in Japan. In contrast, according to the 2008 Eye Banking Statistical Report, in the US 98,864 donor corneas were collected whereas 52,487 cornea transplantations were performed in 2008.

Retinal diseases. Diseases involving retinal degeneration include age-related macular degeneration ("AMD") and retinitis pigmentosa ("RP"). These diseases are characterized by the death of critical photoreceptor cells called rods and cones. Photoreceptor death is due to an abnormality and/or to disruption or death of supportive cells called retinal pigment epithelial ("RPE") cells. According to a 2004 study on *Blindness and Blinding Diseases in the US* published by the University of Washington, approximately 13 million Americans have signs of AMD, over 10 million suffer visual loss and over 200,000 are legally blind from the disease. The occurrence of AMD increases with age; According to the same study, due to the aging population and other factors, approximately 6.3 million Americans are projected to develop AMD in 2030 compared to 1.7 million in 1995.

Liver disease. According to the American Liver Foundation, chronic liver disease (including hepatitis C) is the third most common cause of death due to chronic diseases in people 35-64 years of age. In the US, diseases such as cirrhosis and hepatitis were ranked as the 12th leading cause of death in 2000. The only effective treatment currently available for people with liver failure is full or partial organ transplantation. Unfortunately, the demand for organs far exceeds the number of organs available. According to the United Network for Organ Sharing, there are currently over 17,000 persons on the wait list for a liver transplant. Liver cell transplantation has been used in early stage clinical trials to treat patients with liver failure caused by acute or chronic disease and in patients with genetically caused metabolic defects. This therapy has proven to be especially useful as a "bridge" to keep patients alive until they can receive a whole liver transplant, as well as an alternative to whole-organ transplantation in specific cases.

Diabetes. The National Institutes of Health estimates that may be as many as 2.5 million people suffering from type 1 diabetes or Insulin Dependent Diabetes Mellitus. Normally islet ß cells in the pancreas produce insulin to promote the uptake of glucose by cells in the body. Degeneration of pancreatic islet cells results in insufficient insulin in the bloodstream hence type 1 diabetes. While diabetics can be treated with insulin injections, this only provides intermittent glucose control. Transplantation of pancreatic islet cells from one person to another has been shown to relieve the suffering and side effects caused by current therapies. However, since each patient needs in the order of 500 million functional islet cells at any one time and the primary source of such cells is donation from other people, islet cell therapy is not practical today.

Research Market

The research market for cell systems is made up of scientists performing basic and applied research in the biological sciences. Basic research involves the study of cell biology and biochemical pathways. Applied research involves drug discovery, vaccine development, clinical research and cell transplantation. The domestic market can be broken into three segments: (i) Academic researchers in universities and privately-funded research organizations; (ii) government institutions such as the National Institutes of Health, the US Army, the US Environmental Protection Agency and others; and (iii) industrial organizations such as pharmaceutical companies and consumer product companies. It is estimated that the combined academic and government markets comprise approximately 40% of the total market and that the industrial segment comprises approximately 60%. We believe the following are the main drivers in the research market for commercial cell systems:

- The need for experimental human cells that are more predictive of human biology than are non-human cells or genetically modified cell lines or living non-human animals.
- The desire to lower the cost of drug development in the pharmaceutical industry. We believe that human cell systems may provide a platform for screening toxic drugs early in the development process, thus avoiding late stage failures in clinical trials and reducing costs.
- The need to eliminate animal products in research reagents that may contaminate future therapeutic products.
- The need for experimental control. Serum-free defined media provides the benefit of experimental control because there are fewer undefined components.

- The need for consistency in experiments that can be given by quality controlled products.
- The need to eliminate in-house formulating of media, obtain human tissue or perform cell isolation.
- The need to reduce animal testing in the consumer products industry.

Our internal projections for the global market for human cell systems for use in basic research are several hundred million dollars annually with an anticipated growth rate between 10% and 20%.

Intellectual Property

Patents

We have filed patent applications covering our proprietary technology to create stem cells without the use of fertilized eggs or transferred DNA. In addition, we have obtained exclusive worldwide licenses to a portfolio of patents and patent applications from Advanced Cell Technologies, Inc. ("ACTC").

Our patent portfolio consists of over 30 patent families and over 110 patents and patent applications (when including international filings) in the field of stem cell culture. We also have an exclusive license to the only patent issued by the US Patent & Trademark Office for the creation of hES cells using SCNT for human therapeutic use. Of these, eight are issued patents and a majority of the patents and applications have been filed in the US and in foreign countries through the Patent Corporation Treaty or by direct country filings in those jurisdictions deemed significant to our operations.

We have several internally-generated patents pending. Two of these cover both composition of matter for our parthenogenic stem cell lines and the methods of deriving them. We have also filed patents on unique methods of differentiating parthenogenic stem cells.

The Company has protected its research products and branding through both patents and trademarks. Lifeline has patents pending on its unique packaging for research products. The Company has registered trademarks on its company name, logo and various product names to protect its branding investment.

The patentability of human cells in countries throughout the world reflects widely differing governmental attitudes. In the US, hundreds of patents covering human embryonic stem cells have already been granted, including those on which we rely. In certain countries in Europe, the European Patent Office currently appears to take the position that hES cells themselves are not patentable, while the United Kingdom has decided that some types of hES cells can be patented. As a result, we plan to file internationally wherever feasible and focus our research strategy on cells that best fit the US and United Kingdom Patent Offices' definitions of patentable cells.

License Agreements

In May 2005, we entered into three exclusive license agreements with ACTC for the production of therapeutic products in the fields of diabetes, liver disease, retinal disease and the creation of research products in all fields. The license agreements give us access to all aspects of ACTC's human cell patent portfolio as it existed on that date, plus a combination of exclusive and non-exclusive rights to future developments. A significant feature of the licensed technology is that it allows us to isolate and differentiate hES stem cells directly from a "blastocyst." The hES cells can be immediately differentiated into stem cells capable of expansion and differentiation into islet cells, liver cells, and retinal cells.

Pursuant to the terms of our agreements with ACTC, in exchange for worldwide therapeutic rights to ACTC's portfolio of patents and patent applications in the fields of diabetes, liver disease and retinal disease, we are required to make a payment of $150,000 in May each year, plus milestone payments linked to the launch of therapeutic products (not research products) ranging from $250,000 at first launch to $1 million upon reaching sales of $10 million, with a maximum of $1.75 million in the aggregate. The agreements also require us to pay royalties on sales and meet minimum research and development requirements. The agreements continue until expiration of the last valid claim within the licensed patent rights. ACTC is required to defend any patent infringement claims. Either party may terminate the agreements for an uncured breach or we may terminate the agreements at any time with 30 days notice.

The agreements with ACTC further provide that any technology either party currently owns, develops or licenses in the future may be licensed on a non-exclusive basis by the other party for use in specific fields. This arrangement gives us continuing access to future discoveries made or licensed by ACTC in our fields of diabetes, liver disease, retinal disease, plus all research products, and obligates us to provide similar license rights to ACTC in the fields of blood and cardiovascular diseases.

Exclusive License Agreement Number One, as amended, covers patent rights and technology that are relevant to:

- the research, development, manufacture and sale of human and non-human animal cells for commercial research; and
- the manufacture and selling of hES cells for therapeutic and diagnostic use in the treatment of human diabetes, liver diseases, retinal diseases and retinal degenerative diseases.

Exclusive License Agreement Number Two, as amended, covers patent rights and technology that are relevant to:

- the research, development, manufacture and sale of human and non-human animal cells and defined animal cell lines for commercial research;
- the manufacture and selling of human cells for therapeutic and diagnostic use in the treatment of human diabetes, liver diseases, retinal diseases and retinal degenerative diseases; and
- the use of defined animal cell lines in the process of manufacturing and selling human cells for therapeutic and diagnostic use in the treatment of human diabetes, liver diseases and retinal diseases.

Exclusive License Agreement Number Three, as amended, covers patent rights and technology relevant to the research, development, manufacture and sale of human cells for cell therapy in the treatment of therapeutic and diagnostic use in the treatment of human diabetes and liver diseases, and retinal diseases and retinal degenerative diseases.

Research Agreements

Our scientific founder, Elena Revazova, MD, PhD, has conducted basic research at the Scientific Center for Obstetrics, Gynecology and Perinatology of the Russian Academy of Medical Sciences in Moscow, Russia. Through a research agreement, we have retained all intellectual property rights in the US and other major markets while the Institute has retained such rights in Russia.

During 2007, we entered into sponsored research agreements with the University of California at Irvine ("UCI") and are in negotiations to develop collaborative research agreements with domestic and international research organizations from both the public and private sector. These agreements allow us to team up with nationally and internationally known research scientists to study stem cell technologies developed or licensed by ISC for possible use in therapeutic fields. Dr. Hans Keirstead at UCI is working with our proprietary stem cells on the further development of retinal pigment epithelial cells as well as towards the derivation of photoreceptors to treat macular degeneration and retinitis pigmentosa. We expect that other developing collaborative agreements will focus on the creation of liver cells for the treatment of liver disease, beta cells for the treatment of diabetes and continuing work on our corneal tissues for use in transplantation therapy for corneal-caused vision loss. In addition to the sponsored research agreement with UCI, we provide our stem cell lines to researchers at many universities and other research facilities. Ordinarily, the stem cell lines are provided without charge, but we retain the right to either an exclusive or non-exclusive right to use any technology that may be developed that is necessary in order for us to make therapeutic products based on the research that uses our cells.

Competition

The development of therapeutic and diagnostic agents for human disease is intensely competitive. Pharmaceutical companies currently offer a number of pharmaceutical products to treat diabetes, liver diseases, retinal disease, corneal disease and other diseases for which our technologies may be applicable. Many pharmaceutical and biotechnology companies are investigating new drugs and therapeutic approaches for the same purposes, which may achieve new efficacy profiles, extend the therapeutic window for such products, alter the prognosis of these diseases, or prevent their onset. We believe that our therapeutic products, when and if successfully developed, will compete with these products principally on the basis of improved and extended efficacy and safety and their overall economic benefit to the health care system. We believe that our most significant competitors will be fully integrated pharmaceutical companies and more established biotechnology companies. Smaller companies may also be significant competitors, particularly through collaborative arrangements with large pharmaceutical or biotechnology companies.

Some of our primary competitors in the development of stem cell therapies are Geron Corporation, Genzyme Corporation, StemCell, Inc., ACTC, Aastrom Biosciences, Inc. and ViaCell, Inc., most of which have substantially greater resources and experience than we.

In the field of research products, our primary competitors for stem cells, media and reagents are Lonza, Chemicon, Life Technologies Corp. (formerly Invitrogen Corp.), StemCell Technologies Inc., Millipore, Biotime and Specialty Media.

Sales and Marketing

To date, sales of our research products have been derived primarily through our in-house sales force and via American Tissue Culture Collection ("ATCC"), Millipore, Invitrogen and CellSystems Biotechnologies Vertrieb GmbH.

Government Regulation

Regulation by governmental authorities in the US and other countries is a significant factor in development, manufacture and marketing of our proposed therapeutic products and in our ongoing research and product development activities. The nature and extent to which such regulation applies to us will vary depending on the nature of any products that may be developed by us. We anticipate that many, if not all, of our proposed therapeutic products will require regulatory approval by governmental agencies prior to commercialization. In particular, human therapeutic products are subject to rigorous preclinical and clinical testing and other approval procedures of the FDA, and similar regulatory authorities in European and other countries. Various governmental statutes and regulations also govern or influence testing, manufacturing, safety, labeling, storage and recordkeeping related to such products and their marketing. The process of obtaining these approvals and the subsequent compliance with appropriate statutes and regulations require the expenditure of substantial time and money, and there can be no guarantee that approvals will be granted.

FDA Approval Process

Prior to commencement of clinical studies involving humans, preclinical testing of new pharmaceutical products is generally conducted on animals in the laboratory to evaluate the potential efficacy and safety of the product candidate. The results of these studies are submitted to the FDA as a part of an Investigational New Drug ("IND") application, which must become effective before clinical testing in humans can begin. Typically, human clinical evaluation involves a time-consuming and costly three-phase process. In Phase 1, clinical trials are conducted with animal tests to establish safety followed with a small number of people to further assess safety and to evaluate the pattern of drug distribution and metabolism within the body. In Phase 2, clinical trials are conducted with groups of patients afflicted with a specific disease in order to determine preliminary efficacy, possible dosages and expanded evidence of safety. In some cases, an initial trial is conducted in diseased patients to assess both preliminary efficacy and preliminary safety and patterns of drug metabolism and distribution, in which case it is referred to as a Phase 1-2 trial. In Phase 3, large-scale, multi-center, comparative trials are conducted with patients afflicted with a target disease in order to provide enough data to demonstrate the efficacy and safety required by the FDA. The FDA closely monitors the progress of each of the three phases of clinical testing and may, at its discretion, re-evaluate, alter, suspend or terminate the testing based upon the data which have been accumulated to that point and its assessment of the risk/benefit ratio to the patient. Monitoring of all aspects of the study to minimize risks is a continuing process. All adverse events must be reported to the FDA.

The results of the preclinical and clinical testing on a non-biologic drug and certain diagnostic drugs are submitted to the FDA in the form of a New Drug Application ("NDA") for approval prior to commencement of commercial sales. In the case of vaccines or gene and cell therapies, the results of clinical trials are submitted as a Biologics License Application ("BLA"). In responding to a NDA or BLA, the FDA may grant marketing approval, request additional information or refuse to approve if the FDA determines that the application does not satisfy its regulatory approval criteria. There can be no assurance that approvals will be granted on a timely basis, if at all, for any of our proposed products.

European and Other Regulatory Approval

Whether or not FDA approval has been obtained, approval of a product by comparable regulatory authorities in Europe and other countries will likely be necessary prior to commencement of marketing the product in such countries. The regulatory authorities in each country may impose their own requirements and may refuse to grant an approval, or may require additional data before granting it, even though the relevant product has been approved by the FDA or another authority. As with the FDA, the regulatory authorities in the European Union ("EU") and other developed countries have lengthy approval processes for pharmaceutical products. The process for gaining approval in particular countries varies, but generally follows a similar sequence to that described for FDA approval. In Europe, the European Committee for Proprietary Medicinal Products provides a mechanism for EU-member states to exchange information on all aspects of product licensing.

The EU has established a European agency for the evaluation of medical products, with both a centralized community procedure and a decentralized procedure, the latter being based on the principle of licensing within one member country followed by mutual recognition by the other member countries.

Other Regulations

We are also subject to various US federal, state, local and international laws, regulations and recommendations relating to the treatment of oocyte donors, the manufacturing environment under which human cells for therapy are derived, safe working conditions, laboratory and manufacturing practices and the use and disposal of hazardous or potentially hazardous substances, including radioactive compounds and infectious disease agents, used in connection with our research work. We cannot accurately predict the extent of government regulation which might result from future legislation or administrative action.

Employees

In addition to our six executive officers, we utilize the services of 29 full-time and 2 part-time staff members.

Item 1A. RISK FACTORS

Risks Related to Our Business

Our business is at an early stage of development and we may not develop therapeutic products that can be commercialized.

Our business is at an early stage of development. We do not have any products in late-stage clinical trials. We are still in the early stages of identifying and conducting research on potential therapeutic products. Our potential therapeutic products will require significant research and development and preclinical and clinical testing prior to regulatory approval in the United States and other countries. We may not be able to obtain regulatory approvals, enter clinical trials for any of our product candidates, or commercialize any products. Our product candidates may prove to have undesirable and unintended side effects or other characteristics adversely affecting their safety, efficacy or cost-effectiveness that could prevent or limit their use. Any product using any of our technology may fail to provide the intended therapeutic benefits, or achieve therapeutic benefits equal to or better than the standard of treatment at the time of testing or production.

We have a history of operating losses and do not expect to be profitable in the near future.

We have not generated any profits since our entry into the biotechnology business and have incurred significant operating losses. We expect to incur additional operating losses for the foreseeable future and, as we increase our research and development activities, we expect our operating losses to increase significantly. We do not have any sources of significant revenues and may not have any in the foreseeable future.

We will need additional capital to conduct our operations and develop our products and our ability to obtain the necessary funding is uncertain.

We need to obtain significant additional capital resources in order to develop products. Our current burn rate is approximately $550,000 per month excluding capital expenditures and we have been funding this through private equity financings, as required. We believe that more formal financing in an amount sufficient to fund operations for a year or more will be required and we intend to seek such financing when the capital markets permit. However, if such financing is not available or available only on terms that are detrimental to the long-term survival of the Company, it could have a major adverse effect on our ability to continue to function. 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 2010 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. 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 research or product development initiatives, any of which could have a material adverse affect on our financial condition or business prospects.

Clinical trials are subject to extensive regulatory requirements, very expensive, time-consuming and difficult to design and implement. Our products may fail to achieve necessary safety and efficacy endpoints during clinical trials.

Human clinical trials can be very expensive and difficult to design and implement, in part because they are subject to rigorous regulatory requirements. The clinical trial process is also time consuming. We estimate that clinical trials of our product candidates will take at least several years to complete. Furthermore, failure can occur at any stage of the trials, and we could encounter problems that cause us to abandon or repeat clinical trials. The commencement and completion of clinical trials may be affected by several factors, including:

- unforeseen safety issues;
- determination of dosing issues;
- inability to demonstrate effectiveness during clinical trials;
- slower than expected rates of patient recruitment;
- inability to monitor patients adequately during or after treatment; and
- inability or unwillingness of medical investigators to follow our clinical protocols.

In addition, we or the FDA may suspend our clinical trials at any time if it appears that we are exposing participants to unacceptable health risks or if the FDA finds deficiencies in our IND submissions or the conduct of these trials.

Patents held by other persons may result in infringement claims against us that are costly to defend and which may limit our ability to use the disputed technologies and prevent us from pursuing research and development or commercialization of potential products.

A number of pharmaceutical, biotechnology and other companies, universities and research institutions have filed patent applications or have been issued patents relating to cell therapy, stem cells, and other technologies potentially relevant to or required by our expected products. We cannot predict which, if any, of such applications will issue as patents or the claims that might be allowed. We are aware that a number of companies have filed applications relating to stem cells. We are also aware of a number of patent applications and patents claiming use of stem cells and other modified cells to treat disease, disorder or injury.

If third party patents or patent applications contain claims infringed by either our licensed technology or other technology required to make and use our potential products and such claims are ultimately determined to be valid, we might not be able to obtain licenses to these patents at a reasonable cost, if at all, or be able to develop or obtain alternative technology. If we are unable to obtain such licenses at a reasonable cost, we may not be able to develop some products commercially. We may be required to defend ourselves in court against allegations of infringement of third party patents. Patent litigation is very expensive and could consume substantial resources and create significant uncertainties. An adverse outcome in such a suit could subject us to significant liabilities to third parties, require disputed rights to be licensed from third parties, or require us to cease using such technology.

We may not be able to adequately protect against piracy of intellectual property in foreign jurisdictions.

Considerable research in the areas of stem cells, cell therapeutics and regenerative medicine is being performed in countries outside of the United States, and a number of our competitors are located in those countries. The laws protecting intellectual property in some of those countries may not provide adequate protection to prevent our competitors from misappropriating our intellectual property.

Our competition includes fully integrated biotechnology and pharmaceutical companies that have significant advantages over us.

The market for therapeutic stem cell products is highly competitive. We expect that our most significant competitors will be fully integrated pharmaceutical companies and more established biotechnology and stem cell companies. These companies are developing stem cell-based products and they have significantly greater capital resources and research and development, manufacturing, testing, regulatory compliance, and marketing capabilities. Many of these potential competitors are further along in the process of product development and also operate large, company-funded research and development programs. As a result, our competitors may develop more competitive or affordable products, or achieve earlier patent protection or product commercialization than we are able to achieve. Competitive products may render any products or product candidates that we develop obsolete.

If we fail to meet our obligations under our license agreements, we may lose our rights to key technologies on which our business depends.

Our business depends in part on licenses from third parties. These third party license agreements impose obligations on us, such as payment obligations and obligations to diligently pursue development of commercial products under the licensed patents. If a licensor believes that we have failed to meet our obligations under a license agreement, the licensor could seek to limit or terminate our license rights, which could lead to costly and time-consuming litigation and, potentially, a loss of the licensed rights. During the period of any such litigation, our ability to carry out the development and commercialization of potential products could be significantly and negatively affected. If our license rights were restricted or ultimately lost, our ability to continue our business based on the affected technology platform could be severely adversely affected.

Restrictive and extensive government regulation could slow or hinder our production of a cellular product.

The research and development of stem cell therapies is subject to and restricted by extensive regulation by governmental authorities in the United States and other countries. The process of obtaining FDA and other necessary regulatory approvals is lengthy, expensive and uncertain. We may fail to obtain the necessary approvals to continue our research and development, which would hinder our ability to manufacture or market any future product.

Research in the field of nuclear transfer and embryonic stem cells is currently subject to strict government regulations, and our operations could be restricted or outlawed by any legislative or administrative efforts impacting the use of nuclear transfer technology or human embryonic material.

Our business is focused on human cell therapy, which includes the production of human differentiated cells from stem cells and involves human oocytes. Although our focus is on stem cells derived from unfertilized oocytes, certain aspects of that work may involve the use of nuclear transfer technology or material deemed to be embryonic material. Nuclear transfer technology, commonly known as therapeutic cloning, and research utilizing embryonic stem cells is controversial, and currently subject to intense scrutiny, particularly in the area of nuclear transfer of human cells and the use of human embryonic material. Cloning for research purposes is unlawful in many states and this type of prohibition may expand into other states, including some where we now operate.

Federal law no longer restricts the use of federal funds for human embryonic cell research, commonly referred to as hES cell research, however, our operations may be restricted by future legislative or administrative efforts by politicians or groups opposed to the development of hES cell technology or nuclear transfer technology, and such efforts may be extended to include our parthenogenic technology. Further, future legislative or administrative restrictions could, directly or indirectly, delay, limit or prevent the use of hES technology, nuclear transfer technology, the use of human embryonic material, or the sale, manufacture or use of products or services derived from nuclear transfer technology or other hES technology, or be extended to include our parthenogenetic processes.

Restrictions on the use of human stem cells, and the ethical, legal and social implications of that research, could prevent us from developing or gaining acceptance for commercially viable products in these areas.

Although our stem cells are derived from unfertilized human eggs through a process called "parthenogenesis" that can produce cells suitable for therapy, but are believed to be incapable of producing a human being, such cells are nevertheless often referred to as "embryonic" stem cells. Because the use of human embryonic stem cells gives rise to ethical, legal and social issues regarding the appropriate use of these cells, our research related to human parthenogenic stem cells could become the subject of adverse commentary or publicity and some political and religious groups may still raise opposition to our technology and practices. In addition, many research institutions, including some of our scientific collaborators, have adopted policies regarding the ethical use of human embryonic tissue, which, if applied to our procedures, may have the effect of limiting the scope of research conducted using our stem cells, thereby impairing our ability to conduct research in this field. In some states, use of embryos as a source of stem cells is prohibited.

To the extent we utilize governmental grants in the future, the governmental entities involved may retain certain rights in technology that we develop using such grant money and we may lose the revenues from such technology if we do not commercialize and utilize the technology pursuant to established government guidelines.

Certain of our licensors' research has been or is being funded in part by government grants and our research may be so funded in the future. In connection with certain grants, the governmental entity involved retains rights in the technology developed with the grant. These rights could restrict our ability to fully capitalize upon the value of this research by reducing total revenues that might otherwise be available since such governmental rights may give the government the right to practice the invention without payment of royalties if we do not comply with applicable requirements.

We rely on parthenogenesis, cell differentiation and other stem cell technologies that we may not be able to successfully develop, which may prevent us from generating revenues, operating profitably or providing investors any return on their investment.

We have concentrated our research on our parthenogenesis, cell differentiation and stem cell technologies, and our ability to operate profitably will depend on being able to successfully implement or develop these technologies for human applications. These are emerging technologies with, as yet, limited human applications. We cannot guarantee that we will be able to successfully implement or develop our nuclear transfer, parthenogenesis, cell differentiation and other stem cell technologies or that these technologies will result in products or services with any significant commercial utility. We anticipate that the commercial sale of such products or services, and royalty/licensing fees related to our technology, would be our primary sources of revenues.

The outcome of pre-clinical, clinical and product testing of our products is uncertain, and if we are unable to satisfactorily complete such testing, or if such testing yields unsatisfactory results, we will be unable to commercially produce our proposed products.

Before obtaining regulatory approvals for the commercial sale of any potential human products, our products will be subjected to extensive pre-clinical and clinical testing to demonstrate their safety and efficacy in humans. The clinical trials of our prospective products, or those of our licensees or collaborators, may not demonstrate the safety and efficacy of such products at all, or to the extent necessary to obtain appropriate regulatory approvals. Similarly, the testing of such prospective products may not be completed in a timely manner, if at all, or only after significant increases in costs, program delays or both, all of which could harm our ability to generate revenues. In addition, our prospective products may not prove to be more effective for treating disease or injury than current therapies. Accordingly, we may have to delay or abandon efforts to research, develop or obtain regulatory approval to market our prospective products. The failure to adequately demonstrate the safety and efficacy of a therapeutic product under development could delay or prevent regulatory approval of the product and could harm our ability to generate revenues, operate profitably or produce any return on an investment in us.

If we are unable to keep up with rapid technological changes in our field or compete effectively, we will be unable to operate profitably.

We are engaged in activities in the biotechnology field, which is characterized by extensive research efforts and rapid technological progress. If we fail to anticipate or respond adequately to technological developments, our ability to operate profitably could suffer. Research and discoveries by other biotechnology, agricultural, pharmaceutical or other companies may render our technologies or potential products or services uneconomical or result in products superior to those we develop. Similarly, any technologies, products or services we develop may not be preferred to any existing or newly-developed technologies, products or services.

We may not be able to protect our proprietary technology, which could harm our ability to operate profitably.

The biotechnology and pharmaceutical industries place considerable importance on obtaining patent and trade secret protection for new technologies, products and processes. Our success will depend, to a substantial degree, on our ability to obtain and enforce patent protection for our products, preserve any trade secrets and operate without infringing the proprietary rights of others. We cannot assure you that:

- we will succeed in obtaining any patents, obtain them in a timely manner, or that the breadth or degree of protection that any such patents will protect our interests;
- the use of our technology will not infringe on the proprietary rights of others;
- patent applications relating to our potential products or technologies will result in the issuance of any patents or that, if issued, such patents will afford adequate protection to us or will not be challenged, invalidated or infringed; or
- patents will not be issued to other parties, which may be infringed by our potential products or technologies.

We are aware of certain patents that have been granted to others and certain patent applications that have been filed by others with respect to nuclear transfer and other stem cell technologies. The fields in which we operate have been characterized by significant efforts by competitors to establish dominant or blocking patent rights to gain a competitive advantage, and by considerable differences of opinion as to the value and legal legitimacy of competitors' purported patent rights and the technologies they actually utilize in their businesses.

Our business is highly dependent upon maintaining licenses with respect to key technology.

Although our primary focus relates to intellectual property we have developed internally, some of the patents we utilize are licensed to us by Advanced Cell Technology, which has licensed some of these from other parties, including the University of Massachusetts. These licenses are subject to termination under certain circumstances (including, for example, our failure to make minimum royalty payments or to timely achieve development and commercialization benchmarks). The loss of any of such licenses, or the conversion of such licenses to non-exclusive licenses, could harm our operations and/or enhance the prospects of our competitors. Although our licenses with Advanced Cell Technology allow us to cure any defaults under the underlying licenses to them and to take over the patents and patents pending in the event of default by Advanced Cell Technology, the cost of such remedies could be significant and we might be unable to adequately maintain these patent positions. If so, such inability could have a material adverse affect on our business. Some of these licenses also contain restrictions (*e.g.*, limitations on our ability to grant sublicenses) that could materially interfere with our ability to generate revenue through the licensing or sale to third parties of important and valuable technologies that we have, for strategic reasons, elected not to pursue directly. In the future we may require further licenses to complete and/or commercialize our proposed products. We may not be able to acquire any such licenses on a commercially viable basis.

Certain of our technology may not be subject to protection through patents, which leaves us vulnerable to theft of our technology.

Certain parts of our know-how and technology are not patentable. To protect our proprietary position in such know-how and technology, we intend to require all employees, consultants, advisors and collaborators to enter into confidentiality and invention ownership agreements with us. These agreements may not provide meaningful protection for our trade secrets, know-how or other proprietary information in the event of any unauthorized use or disclosure. Further, in the absence of patent protection, competitors who independently develop substantially equivalent technology may harm our business.

We depend on our collaborators to help us develop and test our proposed products, and our ability to develop and commercialize products may be impaired or delayed if collaborations are unsuccessful.

Our strategy for the development, clinical testing and commercialization of our proposed products requires that we enter into collaborations with corporate partners, licensors, licensees and others. We are dependent upon the subsequent success of these other parties in performing their respective responsibilities and the continued cooperation of our partners. Our collaborators may not cooperate with us or perform their obligations under our agreements with them. We cannot control the amount and timing of our collaborators' resources that will be devoted to our research and development activities related to our collaborative agreements with them. Our collaborators may choose to pursue existing or alternative technologies in preference to those being developed in collaboration with us.

Under agreements with collaborators, we may rely significantly on such collaborators to, among other things:

- design and conduct advanced clinical trials in the event that we reach clinical trials;
- fund research and development activities with us;
- pay us fees upon the achievement of milestones; and
- market with us any commercial products that result from our collaborations.

The development and commercialization of potential products will be delayed if collaborators fail to conduct these activities in a timely manner, or at all. In addition, our collaborators could terminate their agreements with us and we may not receive any development or milestone payments. If we do not achieve milestones set forth in the agreements, or if our collaborators breach or terminate their collaborative agreements with us, our business may be materially harmed.

Our reliance on the activities of our non-employee consultants, research institutions, and scientific contractors, whose activities are not wholly within our control, may lead to delays in development of our proposed products.

We rely extensively upon and have relationships with scientific consultants at academic and other institutions, some of whom conduct research at our request, and other consultants with expertise in clinical development strategy or other matters. These consultants are not our employees and may have commitments to, or consulting or advisory contracts with, other entities that may limit their availability to us. We have limited control over the activities of these consultants and, except as otherwise required by our collaboration and consulting agreements to the extent they exist, can expect only limited amounts of their time to be dedicated to our activities.

These research facilities may have commitments to other commercial and non-commercial entities. We have limited control over the operations of these laboratories and can expect only limited amounts of time to be dedicated to our research goals.

We may be subject to litigation that will be costly to defend or pursue and uncertain in its outcome.

Our business may bring us into conflict with our licensees, licensors or others with whom we have contractual or other business relationships, or with our competitors or others whose interests differ from ours. If we are unable to resolve those conflicts on terms that are satisfactory to all parties, we may become involved in litigation brought by or against us. That litigation is likely to be expensive and may require a significant amount of management's time and attention, at the expense of other aspects of our business. The outcome of litigation is always uncertain, and in some cases could include judgments against us that require us to pay damages, enjoin us from certain activities, or otherwise affect our legal or contractual rights, which could have a significant adverse effect on our business.

We may not be able to obtain third-party patient reimbursement or favorable product pricing, which would reduce our ability to operate profitably.

Our ability to successfully commercialize certain of our proposed products in the human therapeutic field may depend to a significant degree on patient reimbursement of the costs of such products and related treatments at acceptable levels from government authorities, private health insurers and other organizations, such as health maintenance organizations. Reimbursement in the United States or foreign countries may not be available for any products we may develop, and, if available, may be decreased in the future. Also, reimbursement amounts may reduce the demand for, or the price of, our products with a consequent harm to our business. We cannot predict what additional regulation or legislation relating to the health care industry or third-party coverage and reimbursement may be enacted in the future or what effect such regulation or legislation may have on our business. If additional regulations are overly onerous or expensive, or if health care related legislation makes our business more expensive or burdensome than originally anticipated, we may be forced to significantly downsize our business plans or completely abandon our business model.

Our products may be expensive to manufacture, and they may not be profitable if we are unable to control the costs to manufacture them.

Our products may be significantly more expensive to manufacture than other therapeutic products currently on the market today. We hope to substantially reduce manufacturing costs through process improvements, development of new science, increases in manufacturing scale and outsourcing to experienced manufacturers. If we are not able to make these, or other improvements, and depending on the pricing of the product, our profit margins may be significantly less than that of other therapeutic products on the market today. In addition, we may not be able to charge a high enough price for any cell therapy product we develop, even if they are safe and effective, to make a profit. If we are unable to realize significant profits from our potential product candidates, our business would be materially harmed.

To be successful, our proposed products must be accepted by the health care community, which can be very slow to adopt or unreceptive to new technologies and products.

Our proposed products and those developed by our collaborative partners, if approved for marketing, may not achieve market acceptance since hospitals, physicians, patients or the medical community in general may decide not to accept and utilize these products. The products that we are attempting to develop represent substantial departures from established treatment methods and will compete with a number of more conventional therapies manufactured and marketed by major pharmaceutical companies. The degree of market acceptance of any of our developed products will depend on a number of factors, including:

- our establishment and demonstration to the medical community of the clinical efficacy and safety of our proposed products;
- our ability to create products that are superior to alternatives currently on the market;
- our ability to establish in the medical community the potential advantage of our treatments over alternative treatment methods; and
- reimbursement policies of government and third-party payers.

If the healthcare community does not accept our products for any of the foregoing reasons, or for any other reason, our business would be materially harmed.

We depend on key personnel for our continued operations and future success, and a loss of certain key personnel could significantly hinder our ability to move forward with our business plan.

Because of the specialized nature of our business, we are highly dependent on our ability to identify, hire, train and retain highly qualified scientific and technical personnel for the research and development activities we conduct or sponsor. The loss of one or more key executive officers, or scientific officers, would be significantly detrimental to us. In addition, recruiting and retaining qualified scientific personnel to perform research and development work is critical to our success. Our anticipated growth and expansion into areas and activities requiring additional expertise, such as clinical testing, regulatory compliance, manufacturing and marketing, will require the addition of new management personnel and the development of additional expertise by existing management personnel. There is intense competition for qualified personnel in the areas of our present and planned activities, and we may not be able to continue to attract and retain the qualified personnel necessary for the development of our business. The failure to attract and retain such personnel or to develop such expertise would adversely affect our business.

We may not have sufficient product liability insurance, which may leave us vulnerable to future claims we will be unable to satisfy.

The testing, manufacturing, marketing and sale of human therapeutic products entail an inherent risk of product liability claims. We currently have a limited amount of product liability insurance, which may not be adequate to meet potential product liability claims. In the event we are forced to expend significant funds on defending product liability actions, and in the event those funds come from operating capital, we will be required to reduce our business activities, which could lead to significant losses. Adequate insurance coverage may not be available in the future on acceptable terms, if at all. If available, we may not be able to maintain any such insurance at sufficient levels of coverage and any such insurance may not provide adequate protection against potential liabilities. Whether or not a product liability insurance policy is obtained or maintained in the future, any product liability claim could harm our business or financial condition.

Risks Related to the Securities Markets and Our Capital Structure

Stock prices for biotechnology companies have historically tended to be very volatile.

Stock prices and trading volumes for many biotechnology companies fluctuate widely for a number of reasons, including but not limited to the following factors, some of which may be unrelated to their businesses or results of operations:

- clinical trial results;
- the amount of cash resources and such company's ability to obtain additional funding;
- announcements of research activities, business developments, technological innovations or new products by competitors;
- entering into or terminating strategic relationships;
- changes in government regulation;
- disputes concerning patents or proprietary rights;
- changes in our revenues or expense levels;
- public concern regarding the safety, efficacy or other aspects of the products or methodologies we are developing;
- reports by securities analysts;
- activities of various interest groups or organizations;
- media coverage; and
- status of the investment markets.

This market volatility, as well as general domestic or international economic, market and political conditions, could materially and adversely affect the market price of our common stock.

The application of the "penny stock" rules to our common stock could limit the trading and liquidity of our common stock, adversely affect the market price of our common stock and increase stockholder transaction costs to sell those shares.

As long as the trading price of our common stock is below $5.00 per share, the open-market trading of our common stock will be subject to the "penny stock" rules, unless we otherwise qualify for an exemption from the "penny stock" definition. The "penny stock" rules impose additional sales practice requirements on certain broker-dealers who sell securities to persons other than established customers and accredited investors (generally those with assets in excess of $1,000,000 or annual income exceeding $200,000 or $300,000 together with their spouse). These regulations, if they apply, require the delivery, prior to any transaction involving a penny stock, of a disclosure schedule explaining the penny stock market and the associated risks. Under these regulations, certain brokers who recommend such securities to persons other than established customers or certain accredited investors must make a special written suitability determination regarding such a purchaser and receive such purchaser's written agreement to a transaction prior to sale. These regulations may have the effect of limiting the trading activity of our common stock, reducing the liquidity of an investment in our common stock and increasing the transaction costs for sales and purchases of our common stock as compared to other securities.

The market price for our common stock may be particularly volatile given our status as a relatively unknown company with a limited operating history and lack of profits, which could lead to wide fluctuations in our share price. The price at which stockholders purchase shares of our common stock may not be indicative of the price of our common stock that will prevail in the trading market.

The market for our common stock may be characterized by significant price volatility when compared to seasoned issuers, and we expect that our stock price could continue to be more volatile than a seasoned issuer for the indefinite future. The potential volatility in our share price is attributable to a number of factors. First, there has been limited trading in our common stock. As a consequence of this lack of liquidity, any future trading of shares by our stockholders may disproportionately influence the price of those shares in either direction. Second, we are a speculative or "risky" investment due to our limited operating history and lack of profits to date, and uncertainty of future market acceptance for our potential products. As a consequence of this enhanced risk, more risk averse investors may, under the fear of losing all or most of their investment in the event of negative news or lack of progress, be more inclined to sell their shares on the market more quickly and at greater discounts than would be the case with the stock of a seasoned issuer. Many of these factors will be beyond our control and may decrease the market price of our common stock, regardless of our operating performance. We cannot make any predictions or projections as to what the prevailing market price for our common stock will be at any time or as to what effect that the sale of shares or the availability of shares for sale at any time will have on the prevailing market price. In addition, the market price of our common stock could be subject to wide fluctuations in response to:

- quarterly variations in our revenues and operating expenses;
- announcements of new products or services by us;
- fluctuations in interest rates;
- significant sales of our common stock;
- the operating and stock price performance of other companies that investors may deem comparable to us; and
- news reports relating to trends in our markets or general economic conditions.

Shares eligible for future sale may adversely affect the market.

From time to time, certain of our stockholders may be eligible to sell all or some of their shares of common stock by means of ordinary brokerage transactions in the open market pursuant to Rule 144 promulgated under the Securities Act of 1933, as amended, subject to certain limitations. In general, pursuant to Rule 144, a stockholder (or stockholders whose shares are aggregated) who is not an affiliate of our company and who has satisfied a six month holding period may, as long as we are current in our required filings with the SEC, sell securities without further limitation. Rule 144 also permits, under certain circumstances, the sale of securities, without any limitations, by a non-affiliate of our company who has satisfied a one-year holding period. Affiliates of our company who have satisfied a six month holding period may sell securities subject to volume limitations. Any substantial sale of our common stock pursuant to Rule 144 or pursuant to any resale prospectus may have an adverse effect on the market price of our securities. Currently, almost all of our securities are either free trading or subject to the release of trading restrictions under the six month or one year holding periods of Rule 144.

Certain provisions of our Certificate of Incorporation and Delaware law may make it more difficult for a third party to affect a change-in-control.

Our Certificate of Incorporation authorizes the Board of Directors to issue up to 20,000,000 shares of preferred stock and our Board of Directors has created and issued shares of five series of preferred stock. The preferred stock may be issued in one or more series, the terms of which may be determined at the time of issuance by the Board of Directors without further action by the stockholders. These terms may include voting rights including the right to vote as a series on particular matters, preferences as to dividends and liquidation, conversion rights, redemption rights and sinking fund provisions. The issuance of any preferred stock could diminish the rights of holders of our common stock, and therefore could reduce the value of such common stock. In addition, specific rights granted to future holders of preferred stock could be used to restrict our ability to merge with, or sell assets to, a third party. The ability of the Board of Directors to issue preferred stock could make it more difficult, delay, discourage, prevent or make it more costly to acquire the Company or affect a change-in-control.

The sale or issuance of a substantial number of shares may adversely affect the market price for our common stock.

The future sale of a substantial number of shares of our common stock in the public market, or the perception that such sales could occur, could significantly and negatively affect the market price for our common stock. We expect that we will likely issue a substantial number of shares of our capital stock in financing transactions in order to fund our operations and the growth of our business. Under these arrangements, we may agree to register the shares for resale soon after their issuance. We may also continue to pay for certain goods and services with equity, which would dilute our current stockholders. Also, sales of the shares issued in this manner could negatively affect the market price of our stock.

Limitations on director and officer liability and indemnification of our officers and directors by us may discourage stockholders from bringing suit against a director.

Our certificate of incorporation and bylaws provide, with certain exceptions as permitted by governing state law, that a director or officer shall not be personally liable to us or our stockholders for breach of fiduciary duty as a director, except for acts or omissions which involve intentional misconduct, fraud or knowing violation of law, or unlawful payments of dividends. These provisions may discourage stockholders from bringing suit against a director for breach of fiduciary duty and may reduce the likelihood of derivative litigation brought by stockholders on our behalf against a director. In addition, our certificate of incorporation and bylaws may provide for mandatory indemnification of directors and officers to the fullest extent permitted by governing state law.

Compliance with the rules established by the SEC pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 will be complex. Failure to comply in a timely manner could adversely affect investor confidence and our stock price.

Rules adopted by the SEC pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 require us to perform an annual assessment of our internal controls over financial reporting, and certify the effectiveness of those controls. In the future, these rules will require us to secure an attestation of our assessment by our independent registered public accountants. The standards that must be met for management to assess the internal controls over financial reporting as now in effect are complex, and require significant documentation, testing and possible remediation to meet the detailed standards. We may encounter problems or delays in completing activities necessary to make an assessment of our internal controls over financial reporting. In addition, the attestation process is new for us and we may encounter problems or delays in completing the implementation of any requested improvements and receiving an attestation of the assessment by our independent registered public accountants. If we cannot perform the assessment or certify that our internal controls over financial reporting are effective, or our independent registered public accountants are unable to provide an unqualified attestation on such assessment, investor confidence and share value may be negatively impacted.

We do not expect to pay cash dividends in the foreseeable future. We have not paid cash dividends on our stock and we do not plan to pay cash dividends on our stock in the foreseeable future.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None

ITEM 2. PROPERTIES

We have established our primary research facility in 8,215 square feet of leased office and laboratory space in Oceanside, California. Our lease for this facility expires in August 2011, with a five-year option to renew at our discretion. Our current base rent is $7,630 per month. The facility has leasehold improvements which include cGMP (current Good Manufacturing Practices) level clean rooms designed for the derivation of clinical-grade stem cells and their differentiated derivatives, research laboratories for our stem cell differentiation studies and segregated rooms for biohazard control and containment of human donor tissue. The cGMP clean rooms and the associated quality systems provide for ISCO a “pilot manufacturing laboratory” that will be uniquely suited for the creation, culture and differentiation of parthenogenetic stem cells for early stage clinical trials. We believe that this facility is well suited to meet our research, development and pre-clinical and clinical therapeutic production needs but we will need larger cGMP manufacturing laboratories should any one of our therapeutic cells move to larger clinical trials or full-scale therapeutic manufacture.

We have a 3,240 square foot laboratory in Walkersville, Maryland. Our lease for this facility expires in March 2011, with a one-year renewal option, which at this time the Company plans to exercise that option. Our current base rent is $6,762 per month. This laboratory is being used to develop and manufacture our research products, as well as for sales and marketing and general administration. The Walkersville facility contains a 3,700 square foot manufacturing laboratory space with two clean rooms and is fitted with the necessary water purification, refrigeration, labeling equipment and standard manufacturing equipment to manufacture, package, store and distribute media products. There is a 500 square foot quality control and cell culture laboratory outfitted with the necessary cell isolation equipment, incubators, microscopes and standard cell culture equipment necessary to isolate and culture cells and conduct quality control tests to produce superior cell culture products.

The manufacturing and quality control laboratories also serve as product development laboratories, and 300 square feet are devoted to administration, sales and marketing. This area contains the computers, communication equipment and the file systems necessary to establish technical offices, sales and marketing offices, finance and human resources. Equipment monitoring and security systems are in place.

ITEM 3. LEGAL PROCEEDINGS.

None.

ITEM 4. RESERVED.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Market Information

Our common stock is approved for quotation on the OTC Bulletin Board under the trading symbol "ISCO.OB." From January 8, 2007 until January 29, 2007, we traded under the symbol "BTHC.OB." A trading market for our common stock did not begin until January 8, 2007. The OTC Bulletin Board is a regulated quotation service that displays real-time quotes, last-sale prices and volume information in over-the-counter equity securities. The OTC Bulletin Board securities are traded by a community of market makers that enter quotes and trade reports. This market is extremely limited and any prices quoted may not be a reliable indication of the value of our common stock.

On March 3, 2010 the last reported sales price of our common stock as reported by the OTC Bulletin Board was $1.55 per share. As of March 3, 2010, we had 62,369,033, shares of common stock outstanding, and approximately 711 holders of record of our common stock, and we had 3,000,243 shares of preferred stock outstanding, and approximately 9 holders of record of our preferred stock, with 3,000,043 shares of preferred stock being convertible into 30,886,800 shares of common stock.

Our common stock started trading on OTC Bulletin Board in December 2006, as we went public through a reverse merger at that time. The quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not reflect actual transactions. The high and low sales prices of our common stock, as reported by OTC Bulletin Board for each quarter during fiscal years 2008 and 2009, are reported below:

	Market Price	
	High	Low
Fiscal Year 2009		
First Quarter	$0.85	$0.47
Second Quarter	$1.04	$0.65
Third Quarter	$1.40	$0.40
Fourth Quarter	$0.63	$0.18
Fiscal Year 2008		
First Quarter	$1.02	$0.40
Second Quarter	$0.55	$0.32
Third Quarter	$0.41	$0.15
Fourth Quarter	$0.45	$0.14

Our Board of Directors determines any payment of dividends. We have never declared or paid cash dividends on our common stock. We do not expect to authorize the payment of cash dividends on our shares of common stock in the foreseeable future. Any future decision with respect to dividends will depend on future earnings, operations, capital requirements and availability, restrictions in future financing agreements and other business and financial considerations.

Recent Sales of Unregistered Securities

All sales were previously reported in filings on Forms 10-Q and 8-K during 2009.

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Equity Compensation Plan Information

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders:			
2006 Equity Participation Plan	8,102,037	$ 0.76	6,897,963
Equity compensation plans not approved by security holders	11,049,593	$ 0.64	—
Total	8,102,037	$ 0.76	6,897,963

ITEM 6. SELECTED FINANCIAL DATA

Not required.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes and other financial information included elsewhere in this Annual Report on Form 10-K. 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. 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 the best present assessment of our management.

Business Overview

We are a biotechnology company focused on therapeutic, biomedical research and cosmeceutical products.

We have two sets of therapeutic objectives. We are building a bank of clinical-grade human stem cells called the "UniStemCell™ Bank" that are immune-matched to large segments of the population. The second objective is to create an unlimited source of immune-matched human cells for use in the treatment of a set of specific diseases, including corneal, retinal, liver and diabetes through cell transplant therapy. In furtherance of these objectives, we are developing: (i) a new class of pluripotent stem cells that have comparable function but a different derivation process from embryonic stem ("hES") cells, (ii) techniques to cause those cells to be differentiated into the specific cell types required for transplantation, and (iii) facilities and manufacturing protocols to produce these cells without contamination with animal by-products in compliance with the requirements of the US Food and Drug Administration ("FDA") and other regulatory authorities. While our stem cell lines are comparable to hES cell lines in that they have the potential to be differentiated into may different cells in the human body, the development of our cell lines creates cells that can be immune-matched to large segments of the population and does not require the use of fertilized eggs or the destruction of any viable human embryos.

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. affected 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.

Lifeline Skin Care, LLC ("SkinCare") was formed in the State of California on June 5, 2009 and is a wholly-owned subsidiary of ISC California. SkinCare creates cosmetic skin care products derived from our human cell technologies and will develop, manufacture and distribute cosmeceutical products.

Our principal executive offices are located at 2595 Jason Court, Oceanside, California 92056, and our telephone number is (760) 940-6383 and our website is www.internationalstemcell.com.

Results of Operations

Year Ended December 31, 2009 Compared to Year Ended December 31, 2008

Revenues

We are still considered a development stage company and as such have generated nominal revenues. For the year ended December 31, 2009, our product sales have continued to increase. We have recognized revenue from product sales of $1,121,164 and $0 from royalties and licenses for the year ended December 31, 2009, compared to $367,771 of revenue from product sales and $135,000 from royalties and licenses for the year ended December 31, 2008. The increase in product sales is due to our strategic marketing efforts executed over the years on advertising and a continued increase in our efforts by our sales and marketing team to promote and develop new products and sales leads, as well as innovative concepts implemented from our marketing consultants to promote our products.

Cost of sales

Cost of sales for the year ended December 31, 2009 were $789,705, compared to $129,257 for the year ended December 31, 2008. As our revenues increased so has the cost of manufacturing our products. During the year, we have incurred costs to increase our manufacturing facilities as well as our ability to manufacture more products more efficiently. During the year, our cost of sales included costs for inventory adjustment of approximately $181,500, salaries related to manufacturing, raw materials, general laboratory supplies and an allocation of overhead. The inventory adjustment related to a physical inventory and revaluation of inventory costs. We do not anticipate significant inventory adjustments to recur in the future, but we do anticipate some inventory adjustments to occur during normal manufacturing operations. Excluding the inventory adjustment, cost of sales for the year were $608,205, or 54% of sales, compared to $129,257, or 35% of sales for the year 2008. As we refine our manufacturing processes, and our volume continues to increase, we do anticipate our cost of sales as a percentage of sales to decrease.

General and Administrative Expenses

General and administrative expenses for the year ended December 31, 2009 were $4,839,297 an increase of $1,260,253, or 35%, compared to $3,579,044 for the same period in 2008. The increase in general and administrative expenses is primarily related to the development of our Senior Management Team. The major areas of increased expenses related to payroll and payroll related expenses, financial consultants, public and investor relations, audit and accounting, legal, deferred compensation charges and general corporate expense relating to growth.

Research and Development

Research and development expenses were $2,164,450 for the year ended December 31, 2009, an increase of $217,746, or 11%, compared to $1,946,704 for the same period in 2008. Research and development expenses increased primarily due to increased R&D activities on various research projects. As part of these efforts, we hired additional research staff and consultants, which is the majority of our increased expenses. Additionally, as our R&D activities increased and with the additional staff, our R&D lab expenses increased.

R&D operations consisted primarily of the development of additional stem cell lines through parthenogenesis, the development of new techniques of parthenogenesis, the development of differentiation techniques for retinal, corneal and definitive endoderm cells, and the development of research products for sale. Expenses related to these projects have not been separately accounted for on our books as yet since the research involved often involves multiple projects, including the use of the same employees and equipment for multiple purposes.

The development of cells for therapeutic use will be an ongoing endeavor for many years and it is impossible to make any meaningful estimate of the nature and timing of costs related to these activities. Future R&D activities related to research on cells and media products will be ongoing as products are developed and offered for sale and will be accounted for separately at such time as specific allocations can be meaningfully made based on demand and sales.

Other than with respect to the research agreement described previously, no specific completion dates have been established for any particular project since most of our work is experimental. No revenues are expected from any R&D efforts directed toward cell based therapy for several years and may never develop if our research is not successful. Some revenues are expected from research cells and media, but it is too early in our history to make meaningful predictions as to the amount of such revenues.

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 for the year ended December 31, 2009 were $526,641, an increase of $145,746, or 38%, compared to $380,895 for 2008. During 2009, in an effort to increase our product revenue, we increased our marketing efforts, increased our sales staff, re-hired marketing consultants and increased our cost of advertising. We continue to develop marketing and sales strategies, as well as our marketing infrastructure to support our sales team and our sales goals. Our primary marketing expenses for the year ended 2009, related to our professional sales representatives, sales literature, development and placement of print ads for trade journals, trade shows and marketing consultants.

Liquidity and Capital Resources

At December 31, 2009, our cash and cash equivalents totaled $726,829. Overall, we had an increase in cash of $345,007 for the year ended December 31, 2009, resulting from $5,228,294 cash used in operating activities and $889,889 used in investment activities, offset by $6,463,190 of cash provided by our financing activities. The funds generated from financing activities during 2009 were used mainly to support our operating losses.

Operating Cash Flows

Net cash used in operating activities of $5,228,294 for the year end December 31, 2009 was primarily attributable to a net loss of $7,772,652. The adjustments to reconcile the net loss to net cash used in operating activities include depreciation and amortization expense of $205,948, non-cash compensation expense of $1,739,281, Amortization of discounts on convertible notes of $67,227, an increase in inventory of $213,966, an increase in prepaid assets of $170,548, a decrease in accounts receivable of $49,090, a decrease in accounts payable of $95,984, an increase in accrued expenses of $531,971, and an increase of $40,521 in related party payables.

Investing Cash Flows

Net cash used in investing activities of $889,889 for the year ended December 31, 2009 was primarily attributable to purchases of property and equipment and the cost of construction related to our cGMP R&D facilities. Total use of cash for property and equipment was $731,017, which consists primarily of $132,780 related to laboratory equipment for use in a variety of research projects, and for building leasehold improvements related to our cGMP research labs. In addition, we made payments for patent licenses of $158,872 during 2009.

Financing Cash Flows

Net cash provided by financing activities of $6,463,190 for the year ended December 31, 2009 was primarily attributable to closing the Series D, and E Preferred Stock financings of $5,300,000, Rule 144 stock issued of $1,494,231.

Management believes that 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. Our current burn rate is approximately $550,000 per month excluding capital expenditures. The timing and degree of any future capital requirements will depend on many factors., Based on the above, there is substantial doubt about the Company’s ability to continue as a going concern.

Year Ended December 31, 2008 Compared to Year Ended December 31, 2007

Revenues

We are a development stage company and as such have generated nominal revenues. For the year end December 31, 2008, our product sales have continued to increase. We recognized revenue from product sales of $367,771 and $135,000 from royalties and licenses during 2008, compared to $38,764 of product sales for the year ended December 31, 2007. The increase in product sales is due to our strategic marketing efforts executed over the years on advertising and our continued 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 for the year ended December 31, 2008 were $3,579,044 an increase of $489,081, or 16%, compared to $3,089,963 for the same period in 2007. The increase primarily related to the development of a support staff, which included payroll related expenses of $1,554,821, financial consultants to assist with various Securities and Exchange Commission filings of $70,753, audit and accounting $192,537, deferred compensation charges of $559,500 and general corporate expenses of $1,201,432.

Research and Development

Research and development expenses were $1,946,704 for the year ended December 31, 2008, a decrease of $539,713, or 22%, compared to $2,486,417 for the same period in 2007. Research and development expenses decreased from the prior year primarily due to our efforts to manage our cash position. We reviewed all research and development expenses for cost reduction opportunities and during the year decreased research and development activities being conducted at our Russian lab. We also reduced expenses related to our research consultants, as well as our reduced research efforts and expenses on certain collaboration activities. We gained efficiencies in our laboratory activities and streamlined our production activities to reduce costs.

R&D operations consisted primarily of the development of additional stem cell lines through parthenogenesis, the development of new techniques of parthenogenesis, the development of differentiation techniques for retinal, corneal and definitive endoderm cells, and the development of research products for sale. Expenses related to these projects have not been separately accounted for on our books as yet since the research involved often involves multiple projects, including the use of the same employees and equipment for multiple purposes.

The development of cells for therapeutic use will be an ongoing endeavor for many years and it is impossible to make any meaningful estimate of the nature and timing of costs related thereto. Future R&D related to research cells and media products will be ongoing as products are developed and offered for sale and will be accounted for separately at such time as specific allocations can be meaningfully made based on demand and sales. We have not yet reached that stage of development. The project at UCI previously described will be the first for which separate allocation will be feasible.

Other than with respect to the research agreement described previously, no specific completion dates have been established for any particular project since most of our work is experimental. No revenues are expected from any R&D efforts directed toward cell based therapy for several years and may never develop if our research is not successful. Some revenues are expected from research cells and media, but it is too early in our history to make meaningful predictions as to the amount of such revenues.

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 for the year ended December 31, 2008 were $380,895, a decrease of $114,114, or 23%, compared to $495,009 for 2007. During 2008, as part of our cost saving measures, we reduced expenses related to our marketing consultants and our cost of advertising. We continued to develop marketing and sales strategies, as well as, our marketing infrastructure to support our sales team and our sales goals. Our primary marketing expenses for the year ended 2008, related to our professional sales representatives, sales literature, development and placement of print ads for trade journals, trade shows and marketing consultants.

Liquidity and Capital Resources

At December 31, 2008, our cash and cash equivalents totaled $381,822. Overall, we had an increase in cash of $216,478 for the year ended December 31, 2008, resulting from $4,750,326 cash used in operating activities and $318,196 used in investment activities, offset by $5,285,000 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 $4,750,326 for the year end December 31, 2008 was primarily attributable to a net loss of $6,571,324. The adjustments to reconcile the net loss to net cash used in operating activities include depreciation and amortization expense of $163,055, non-cash stock option expense of $734,867, Amortization of discounts on convertible notes of $1,013,735, a decrease in inventory of $241,707, an increase in prepaid assets of $43,607, a decrease in accounts receivable of $70,473, a decrease in other assets of $3,779, a decrease in accounts payable of $28,392, an increase in accrued expenses of $98,816, and a decrease of $485,130 in related party payables.

Investing Cash Flows

Net cash used in investing activities of $318,196 for the year ended December 31, 2008 was primarily attributable to purchases of property and equipment of $254,353 consisting primarily of laboratory equipment for use in a variety of research projects, and building leasehold improvements related to new research laboratories. In addition we made payments for patent licenses of $63,843 during 2008.

Financing Cash Flows

Net cash provided by financing activities of $5,285,000 for the year ended December 31, 2008 was primarily attributable to closing the Series A, B, C and D Preferred Stock financings of $4,550,000, net proceeds from loan of $1,110,000 and advances of $250,000, offset by a loan payment of $625,000.

Management believes that 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. Our current burn rate is approximately $450,000 per month excluding capital expenditures. The timing and degree of any future capital requirements will depend on many factors., Based on the above, there is substantial doubt about the Company's ability to continue as a going concern

Off-Balance Sheet Arrangements

There were no off-balance sheet arrangements.

Critical Accounting Policies and Estimates

Principles of Consolidation

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

Cash Equivalents

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

Inventories

Inventories are stated at the lower of cost or market. Laboratory 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 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. Patent license cost is included in research and development expense.

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.

Product Sales

In accordance with the provisions of ASC Topic 605, *Revenue Recognition*, revenue from product sales is recognized at the time of shipment to the customer provided all other revenue recognition criteria have been met. If the customer has a right of return, 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.

Revenue Arrangements with Multiple Deliverables

The Company sometimes enters into revenue arrangements that contain multiple deliverables which is also covered by the provisions of ASC Topic 605, *Revenue Recognition*. This issue addresses the timing and method of revenue recognition for revenue arrangements that include the delivery of more than one product or service. In these cases, the Company recognizes revenue from each element of the arrangement as long as separate value for each element can be determined, the Company has completed its obligation to deliver or perform on that element, and collection of the resulting receivable is reasonably assured.

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 provisions of ASC Topic 825-20, *Financial Instruments—Registration Payment Arrangements*, 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.

Income Taxes

The Company accounts for income taxes in accordance with the provisions of ASC Topic 740, *Income Taxes* which requires the Company to provide a net deferred tax asset/liability equal to the expected future tax benefit/expense of temporary reporting differences between book and tax accounting methods and any available operating loss or tax credit carryforwards.

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 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 $250,000 per financial institution.

Income (Loss) Per Common Share

The provisions of ASC Topic 260, *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.

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.

Recent Accounting Pronouncements

Information with respect to recent accounting pronouncements is included in Note 1 to the Consolidated Financial Statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not required.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The information required by this Item is set forth in our Consolidated Financial Statements and Notes thereto beginning at page F-1 of this Annual Report on Form 10-K.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 9A. CONTROLS AND PROCEDURES.

Disclosure Controls and Procedures

As required by Rules 13a-15 and 15d-15 of the Securities Exchange Act of 1934, the Company has evaluated, with the participation of management, including the Chief Executive Officer and the Chief Financial Officer, the effectiveness of its disclosure controls and procedures (as defined in such rules) as of the end of the period covered by this report. Based on such evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports prepared in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC") is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms.

Our management, including the Company's Chief Executive Officer and Chief Financial Officer, does not expect that the Company's disclosure controls and procedures will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple errors or mistakes.

Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Changes in Internal Control Over Financial Reporting

There have been no changes in the Company's internal control over financial reporting that occurred during the fourth quarter of the year ended December 31, 2009 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. The Company continues to review its disclosure controls and procedures, including its internal controls over financial reporting, and may from time to time make changes aimed at enhancing their effectiveness and to ensure that the Company's systems evolve with its business.

Management Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control system is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States ("GAAP") and includes those policies and procedures that:

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

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

Our management conducted an evaluation of the effectiveness of the system of internal control over financial reporting based on the framework in Internal Control —Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, our management concluded that our system of internal control over financial reporting was effective as of December 31, 2009.

This report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit us to provide only management's report in this annual report.

ITEM 9B. OTHER INFORMATION.

None.

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

We have an unclassified Board of Directors that consists of six directors. Our directors are elected for a term of one year and are up for election every year. Once elected, directors serve until their respective successors are duly elected and qualified.

The six nominees that will be recommended by the Board of Directors for election by our stockholders are Kenneth C. Aldrich, Andrey Semechkin, Jeffrey D. Janus, Donald A. Wright and Paul V. Maier and Ruslan Semechkin. All nominees are current members of our Board of Directors and, if reelected, they will serve as directors until our annual meeting of stockholders in 2011 or until their successors, if any, are elected and qualified.

The following table sets forth, our current directors, who will be nominees at this years annual meeting of the stockholders, as well as information with respect to their ages and background:

Name	Principal Occupation	Age	Director Since
Kenneth C. Aldrich	Chairman of the Board	71	2006
Andrey Semechkin	Chief Executive Officer, Director	50	2008
Paul V. Maier	Independent Financial Consultant	62	2007
Donald A. Wright	President and Chief Executive Officer, Confluence Capital Group, Inc.	58	2007
Jeffrey D. Janus	Senior Vice President, Operations ISCO, CEO and President Lifeline Cell Technology	53	2006
Ruslan Semechkin	CEO and President Lifeline Skincare, Inc., Director	24	2008

Kenneth C. Aldrich, Chairman and Co-Founder, has been active in venture capital investing and private equity since 1975. Having previously served as Chairman, Mr. Aldrich assumed the role of CEO in January 2008 until November 2009 He is also a Managing Director of Convergent Ventures, an early-stage life sciences investment company, and an active member of Tech Coast Angels. Through those entities and predecessor companies, he has provided early-stage funding and management for a variety of biomedical and technology start-ups. During the last five years he has held the following positions: WaveTec Vision Systems, an ophthalmic device company (Director and co-founder), and Encode Bio, a drug discovery tools company (Director). He is also director of Green Dot Corporation, the world's largest issuer of prepaid debit cards. Mr. Aldrich holds degrees, with honors, from both Harvard University and Harvard Law School. Mr. Aldrich's Director qualifications include serving as an officer or director of many companies, both public and private throughout his career.

Andrey Semechkin, Ph.D., CEO and Director, Dr. Semechkin has been a Director of the Company since December 2008. As a Director Dr. Semechkin brings to ISCO both business management and scientific activity organization experience. He has been the Chief Executive Officer of the Company since November 2009, and from December 2008 to July 2009, he served as Chief Business Officer, from July 2009 to November 2009 he served as Executive Vice President. Dr. Semechkin is a specialist in system analysis, strategic planning and corporate management. He is a member of the Russian Academy of Sciences and has been Deputy Director of Institute of System Analysis since 2003. Professor Semechkin was awarded the Russian Government Award in Science and Technology in 2006 and has written several scientific books. Dr. Semechkin's Director qualifications include his over 20 years experience creating and managing businesses across different industries and scientific sectors.

Paul V. Maier became a director in July 2007 and has over 20 years of experience as a senior executive in biotechnology and pharmaceutical companies. Mr. Maier is currently an independent financial consultant. Since October 2009, he has been serving as Interim Chief Financial Officer of Sequenom, Inc., a publically held company serving the discovery, clinical research, and molecular diagnostics market. Previously, Mr. Maier was Senior Vice President and Chief Financial Officer of Ligand Pharmaceuticals, Inc. (NASDAQ: LGND) a commercial stage biopharmaceutical company, a position he held from 1992 to 2007. From 1990 to 1992, Mr. Maier served as Vice President, Finance of DFS West, a division of DFS Group, LP a private multinational retailer. From 1984 to 1990, Mr. Maier was employed by ICN Pharmaceuticals, a pharmaceutical and biotechnology research products company, where he held various executive positions in finance and general management in ICN as well as SPI

Pharmaceuticals, a publicly held subsidiary. Mr. Maier currently serves on public Boards for Pure Bioscience and Hana Biosciences. Mr. Maier received an MBA from Harvard Business School and a BS from Pennsylvania State University. Mr. Maier's Director qualifications include his education, his experience and Board experience. Mr. Maier currently serves as Audit Committee Chair of two other Public Boards and Compensation Committee Chair on one of those Public Boards.

Donald A. Wright became a director in March 2007. Mr. Wright is currently Chairman and Founder of Everett, Washington-based Confluence Capital Group Inc., which provides consulting services to institutional investors, debt holders and public and private companies. On January 1, 2010 Mr. Wright became Chief Executive Officer and President of ISIS, Inc. which provides various services under contract to various agencies of the US Government and Armed Services. Mr. Wright was Chief Executive Officer and President of Pacific Aerospace & Electronics, Inc., an engineering and manufacturing company that he helped to found and that designs, manufactures and sells components primarily for the aerospace, defense and transportation industries, from 1995 until 2006. Mr. Wright's Director qualifications include serving on multiple public and private company Boards over the last 25 years, certification from UCLA's Anderson School of Business for Directors of Public Companies which included modules on the Finance, Audit, Compensation and Corporate Governance Committees.

Jeffrey D. Janus has been a director of the company since 2006. He is currently the Senior Vice President of ISCO and the CEO of ISCO's wholly-owned subsidiary, Lifeline Cell Technology. From 2004 to the present Mr. Janus held the position of president of ISCO. Mr. Janus was appointed the CEO of Lifeline Cell Technology, LLC in January 2004. From 2002 to 2004 Mr. Janus was the Founder and President of Janus Biologics, LLC (Frederick Maryland). From 1998 to 2002 Mr. Janus was Director of Marketing of Human Cell Systems at BioWhittaker Corporation, a Cambrex Company (Walkersville, Maryland) where he expanded the company's research products portfolio into new fields, including stem cells, and created and implemented the strategy of moving human cell-based research products into the clinical markets. From 1989 through 1998 Mr. Janus played alternate roles as CFO and Director of Marketing in the founding and building of Clonetics Corporation (San Diego, California). Mr. Janus led the product development and marketing of the Clonetics brand, consisting of over 200 human cell and reagent products. The Clonetics brand ultimately captured the largest share of the domestic and international market in its field, maintained profitability and an annual growth rate of 20 percent for over ten consecutive years. Mr. Janus ultimately implemented the sale of Clonetics to BioWhittaker. None of the prior companies Mr. Janus worked with were affinities of ISCO. Mr. Janus is published in the embryonic stem cell field as a member of a team of international scientists that created the first human parthenogenetic stem cells and in the use of human somatic cells for toxicity applications. Mr. Janus obtained an MBA from San Diego State University and a Bachelors of Science degree in Biochemistry from the University of California at Davis. Mr. Janus' Director qualifications include his extensive experience in building and running human cell based companies, including those involved in basic clinical research, commercial operations and development and sale of commercial research products. His educational qualifications include an MBA and BS degree in Biochemistry. Mr. Janus also has extensive financial experience in human cell based companies including the financing of such businesses and experience in sales and acquisitions. He also has experience in managing and implementing scientific projects involving human cells, including human stem cells.

Ruslan Semechkin, Ph.D, CEO of Lifeline Skin Care, Inc., became a Director in October 2008 and brings to International Stem Cell Corporation both scientific expertise and international relationships. He has been the CEO and President of Lifeline Skin Care, Inc since July 2009, and from December 2008 to July 2009, he served as Senior Research Scientist of ISCO. Dr. Semechkin's Director qualifications include his training in medical genetics, physiology and business management. Since May 2006 he has been President of the US private Corporation, X-Master, Inc., which invests in different types of assets. Dr. Semechkin holds Ph.D. degree in physiology from one of the leading Russian biomedical institutes, P.K.Anokhin Research Institute of Normal Physiology, Moscow, Russia. He is a Member of International Society for Stem Cell Research.

Our executive officers are as follows:

Name	Principal Occupation	Age
Kenneth C. Aldrich	Chairman of the Board	71
Andrey Semechkin	Chief Executive Officer, Director	50
Ray Wood	Chief Financial Officer and Secretary	49
Jeffrey D. Janus	Senior Vice President, Operations ISCO, CEO and President, Lifeline Cell Technology, Director	53
Brian Lundstrom	President	47
Ruslan Semechkin	CEO and President of Lifeline Skin Care, Inc., Director	24

Kenneth C. Aldrich, Chairman and Co-Founder, has been active in venture capital investing and private equity since 1975. Having previously served as Chairman, Mr. Aldrich assumed the role of CEO in January 2008 until November 2009 He is also a Managing Director of Convergent Ventures, an early-stage life sciences investment company, and an active member of Tech Coast Angels. Through those entities and predecessor companies, he has provided early-stage funding and management for a variety of biomedical and technology start-ups. During the last five years he has held the following positions: WaveTec Vision Systems, an ophthalmic device company (Director and co-founder), and Encode Bio, a drug discovery tools company (Director). He is also director of Green Dot Corporation, the world's largest issuer of prepaid debit cards. Mr. Aldrich holds degrees, with honors, from both Harvard University and Harvard Law School.

Andrey Semechkin, Ph.D., CEO and Director, has been a Director of the Company since December 2008. As a Director Dr. Semechkin brings to ISCO both business management and scientific activity organization experience. He has been the Chief Executive Officer of the Company since November 2009, and from December 2008 to July 2009, he served as Chief Business Officer, from July 2009 to November 2009 he served as Executive Vice President. Dr. Semechkin is a specialist in system analysis, strategic planning and corporate management. He is a member of the Russian Academy of Sciences and has been Deputy Director of Institute of System Analysis since 2003. Professor Semechkin was awarded the Russian Government Award in Science and Technology in 2006 and has written several scientific books. He has over 20 years experience creating and managing businesses across different industries and scientific sectors.

Ray Wood, Chief Financial Officer and Secretary. has over 20 years of experience in accounting and corporate finance and was promoted to CFO and Secretary of International Stem Cell Corporation on January 27, 2010. Mr. Wood began his career working for Coopers and Lybrand, CPA's. From there, Mr. Wood has held various positions working from small start up companies, one of which went from a private to a public company, to large International public corporations. He has extensive knowledge and experience working with public companies and in the implementation of the Sarbanes-Oxley Act of 2002. Mr. Wood holds B.S. degree in Accounting from San Diego State University and is a CPA of the state of California.

Jeffrey D. Janus has been a director of the company since 2006. He is currently the Senior Vice President of ISCO and the CEO of ISCO's wholly-owned subsidiary, Lifeline Cell Technology. From 2004 to the present Mr. Janus held the position of president of ISCO. Mr. Janus was appointed the CEO of Lifeline Cell Technology, LLC in January 2004. From 2002 to 2004 Mr. Janus was the Founder and President of Janus Biologics, LLC (Frederick Maryland). From 1998 to 2002 Mr. Janus was Director of Marketing of Human Cell Systems at BioWhittaker Corporation, a Cambrex Company (Walkersville, Maryland) where he expanded the company's research products portfolio into new fields, including stem cells, and created and implemented the strategy of moving human cell-based research products into the clinical markets. From 1989 through 1998 Mr. Janus played alternate roles as CFO and Director of Marketing in the founding and building of Clonetics Corporation (San Diego, California). Mr. Janus led the product development and marketing of the Clonetics brand, consisting of over 200 human cell and reagent products. The Clonteics brand ultimately captured the largest share of the domestic and international market in its field, maintained profitability and an annual growth rate of 20 percent for over ten consecutive years. Mr. Janus ultimately implemented the sale of Clonetics to BioWhittaker. None of the prior companies Mr. Janus worked with were affinities of ISCO. Mr. Janus is published in the embryonic stem cell field as a member of a team of international scientists that created the first human parthenogenetic stem cells and in the use of human somatic cells for toxicity applications. Mr. Janus obtained an MBA from San Diego State University and a Bachelors of Science degree in Biochemistry from the University of California at Davis.

Brian Lundstrom, President, Mr. Lundstrom is trained in immunology, molecular biology, finance and international business management in Europe and the US. He has over 23 years of product, clinical, business and commercial development experience from R&D-driven and mostly publicly traded and commercially operating companies with leadership in biologics, diabetes, transplantation and other chronic diseases. Mr. Lundstrom joined International Stem Cell Corporation in November 2009. Prior to that, he was Chief Executive Officer of Brexys during 2008-2009, Senior Vice President of Business Development for ACADIA Pharmaceuticals during 2004-2008, Vice President of Business Development for Genzyme Corporation during 2000-2004, and Vice President of Corporate Development for Oxford GlycoSciences during 1998-1999. Earlier, Mr. Lundstrom held increasingly senior business, clinical and product development positions with Novo Nordisk and Immuntech in the US and Europe. None of these companies had affiliation with International Stem Cell Corporation.

Ruslan Semechkin, Ph.D, CEO of Lifeline Skin Care, Inc., became a Director in October 2008 and brings to International Stem Cell Corporation both scientific expertise and international relationships. He has been the CEO and President of Lifeline Skin Care, Inc since July 2009, and from December 2008 to July 2009, he served as Senior Research Scientist of ISCO. Dr. Semechkin is trained in medical genetics, physiology and business management. Since May 2006 he has been President of the US private Corporation, X-Master, Inc., which invests in different types of assets. Dr. Semechkin holds Ph.D. degree in physiology from one of the leading Russian biomedical institutes, P.K.Anokhin Research Institute of Normal Physiology, Moscow, Russia. He is a Member of International Society for Stem Cell Research.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires our executive officers and directors and persons who beneficially own more than 10% of our Common Stock to file initial reports of beneficial ownership and reports of changes in beneficial ownership with the SEC. Such persons are required by SEC regulations to furnish us with copies of all Section 16(a) forms filed by such person.

Based solely on our review of such forms furnished to us and written representations from certain reporting persons, we believe that all filing requirements applicable to our executive officers, directors and greater-than-10% stockholders were met with one exception.

CORPORATE GOVERNANCE

Code of Conduct and Ethics

The Board has adopted a Code of Conduct and Ethics that applies to all of our employees, officers and directors.

The members of the Audit Committee are Paul V. Maier (Chairman) and Donald A. Wright. Each of the members of the Audit Committee satisfies the independence requirements established by the Nasdaq Marketplace Rules. Mr. Maier is an audit committee financial expert, as defined in the rules of the Securities and Exchange Commission. The Audit Committee operates under a written charter that is available on our website at: www.internationalstemcell.com. The Audit Committee conducts an annual review of this charter in addition to an annual review of the committee's overall performance. The primary purpose of the Audit Committee is to oversee our accounting and financial reporting processes and the function of the Audit Committee includes retaining our independent auditors, reviewing their independence, reviewing and approving the planned scope of our annual audit, reviewing and approving any fee arrangements with our auditors, overseeing their audit work, reviewing and pre-approving any non-audit services that may be performed by them, reviewing the adequacy of accounting and financial controls, reviewing our critical accounting policies and reviewing and approving any related party transactions. The Audit Committee held five meetings during the fiscal year ended December 31, 2009. The Committee meets and confers at least quarterly with the outside auditors and conducts an executive session without management at each meeting.

Item 11. EXECUTIVE COMPENSATION. SUMMARY COMPENSATION TABLE

The following table sets forth information concerning the compensation earned by our most highly compensated executive officers during the fiscal year ended December 31, 2009, and 2008.

2009 SUMMARY COMPENSATION TABLE

Name	Year	Salary(1)	Bonus(2)	Option Awards Number of Options(5)	Option Awards in $ (3)	Restricted Stock Grant	Non Eq. Incentive Plan Comp. ($)	All Other Comp.(4)	Total
Kenneth C. Aldrich									
	2009	$120,012		5,000,000	$ 1,354,254				$1,474,266
	2008	$ 13,846		400,000	$ 86,082	664,608	$166,152		$ 266,080
Andrey Semechkin									
	2009	$162,692		1,800,000	$ 499,809			$148,767	$ 811,268
Jeffrey D. Janus									
	2009	$178,942		1,000,000	$ 270,851				$ 449,793
	2008	$179,076		300,000	$ 64,561	147,652	$ 36,913		$ 280,550
Brian Lundstrom									
	2009	$ 35,577		3,000,000	$ 812,552				$ 848,129

(1) Actual amounts paid.

(2) Performance-based bonuses are generally paid pursuant to our annual compensation guidelines and reported as Non-Equity Incentive Plan Compensation. Except as otherwise noted, amounts reported as Bonus represent discretionary bonuses in addition to the amount (if any) earned under the annual compensation guidelines.

(3) Valuation based on the dollar amount recognized for financial statement reporting purposes pursuant to FAS 123R. The assumptions used with respect to the valuation of option grants are set forth in the notes in the Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

(4) In 2009 Andrey Semechkin was paid Dividends of $148,767 as part of the Series D financing agreement.

(5) On April 22, 2008 we granted options as follows: Mr. Aldrich 400,000 shares, and Mr. Janus 300,000 shares at $0.45 per share. Those options expire April 22, 2018. The options are subject to the plan restrictions and vest at the rate of 2% per month commencing May 22, 2008.

On April 29, 2009 we granted 50,000 options to Dr. Andrey Semechkin at the grant price of $0.49. The options expire on April 29, 2019. These options are subject to plan restrictions and vest at a rate of 2% per month commencing on May 29, 2009.

On November 5, 2009 we granted options as follows: Mr. Aldrich 5,000,000 shares, Mr. Janus 1,000,000 shares and Mr. Lundstrom 3,000,000 shares. The grant price for these options is $0.62. These options expire on November 5, 2019. Of the 5,000,000 shares granted to Mr. Aldrich, 142,857 were granted as ISO's under the 2006 Equity Participation Plan and are subject to plan restrictions. The remaining 4,857,143 shares were granted as Non-Qualified Options outside the plan and registered on the S-8 filed January 27, 2010. Of the 1,000,000 shares issued to Mr. Janus, 142,857 were issued as ISO's under the 2006 Equity Participation Plan and are subject to plan restrictions. The remaining 857,143 shares were issued outside the plan as Non-Qualified options and registered on the S-8 filed January 27, 2010. The options issued to Mr. Aldrich and Mr. Janus vest at the rate of 2% per month commencing December 5, 2009.

The vesting schedule for Mr. Lundstrom's options is as follows: No shares will vest for the first six months, at which time $180,000 shares will vest representing 2% per month on 1.5 millions shares or one half of the grant; for the next six months an additional 30,000 shares per month will vest representing 2% of 1.5 million shares or one half of the grant; at the end of 12 months an additional 360,000 shares will vest, representing 12 months vesting on the remaining 1.5 million shares of the grant; thereafter all previously unvested shares will continue to vest at the rate of 60,000 shares per month (2%) until fully vested. Of the 3,000,000 options issued to Mr. Lundstrom 142,857 shares were issued as ISO's under the 2006 Equity Participation Plan and are subject to plan restrictions. The remaining 2,857,143 shares were issued outside of the plan as Non-qualified options and registered on the S-8 filed January 27, 2010.

Of the 1,750,000 shares granted to Dr. Andrey Semechkin, 127,966 shares were granted as ISO's under the 2006 Equity Participation Plan and are subject to plan restrictions. The remaining 1,622,034 shares were granted as Non-Qualified Options outside the plan and registered on the S-8 filed January 27, 2010.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

The following table sets forth certain information with respect to the value of all unexercised options previously awarded to our named executive officers as of December 31, 2009:

Outstanding Equity Awards at December 31, 2009

Name	Year Option Granted	Number of Securities Underlying Unexercised Options Exercisable	Number of Securities Underlying Unexercised Options Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options	Restricted Stock Grant (1)	Option Exercise Price	Option Exercise Date	Number of Shares or Units of Stock that have not Vested	Market Value of Shares or Units that have not Vested
Kenneth C. Aldrich									
	2006	208,000	42,000			$ 1.00	2016	42,000	$ 8,864
	2008	160,000	240,000			$ 0.45	2018	240,000	$ 74,455
	2008	—	—		664,608				
	2009	100,000	4,900,000			$ 0.62	2019	4,900,000	$1,327,169
Andrey Semechkin									
	2009	8,000	42,000			$ 0.49	2019	42,000	$ 12,597
	2009	0	1,750,000			$ 0.59	2019	1,750,000	$ 484,813
Jeffrey D. Janus									
	2006	208,000	42,000			$ 1.00	2016	42,000	$ 8,864
	2008	120,000	180,000			$ 0.45	2018	180,000	$ 55,841
	2008	—	—		147,652				
	2009	20,000	980,000			$ 0.62	2019	980,000	$ 250,531
Brian Lundstrom									
	2009	0	3,000,000			$0.0.62	2019	3,000,000	$ 812,552

(1) Represents a restricted stock grant issued December 29, 2008. The stock is kept in escrow until the restrictions are lifted on December 29, 2011. This award is not part of the 2006 stock plan.

2009 DIRECTOR COMPENSATION

The following table sets forth information concerning the compensation earned during the last fiscal year by each individual who served as a director at any time during the fiscal year, other than directors who are listed in the Summary Compensation Table:

Name	Fees Earned or Stock Awards Paid in Cash	Restricted Stock Awards	Option Awards Number of Shares (1)	Option Awards (2)	Total Option Awards (2)
Donald A. Wright	$ 0	$	50,000	$14,996	$88,367
Paul V. Maier	$ 0	$	50,000	$14,996	$78,991

(1) On December 10, 2009, each of the directors received 50,000 options. The options were awarded at $0.59 per share and vest at 8.3% per month starting the following month.

(2) Valuation based on the dollar amount recognized for financial statement reporting purposes pursuant to FAS 123R. The assumptions used with respect to the valuation of option grants are set forth in Note 9 of the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

Upon joining the Board, outside directors receive an initial option grant of 50,000 shares of Common Stock. The initial option grant will vest at a rate of 2% per month, starting one month after they join the company.

Outside directors receive an annual retainer of $40,000 for service on the Board and for service on any committee of the Board of Directors, Audit Committee, Compensation Committee or Governance Committee. In addition, an outside director serving as the chair of the Board of Directors, the Governance Committee or the Audit Committee will receive an additional annual retainer of $20,000. To conserve cash, we may ask outside directors to defer or waive a portion of their cash compensation.

Directors who are also employees of International Stem Cell Corporation do not receive any additional compensation for their services as members of the Board of Directors.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth information regarding the beneficial ownership of our common stock as of March 12, 2010, by (i) each person who is known by us to beneficially own 5% or more of our common stock, (ii) each of our directors and executive officers, and (iii) all executive officers and directors as a group. In general, a person is deemed to be a "beneficial owner" of a security if that person has or shares the power to vote or direct the voting of such security, or the power to dispose or to direct the disposition of such security. A person is also deemed to be a beneficial owner of any securities of which the person has the right to acquire beneficial ownership within 60 days. To the best of our knowledge, all persons named have sole voting and investment power with respect to such shares, except as otherwise noted.

In computing the number of shares of Common Stock beneficially owned by a person and the percentage ownership of such person, shares of Common Stock subject to warrants or options held by that person that are currently exercisable or exercisable within 60 days of February 28, 2010 were deemed to be outstanding, and shares of preferred stock owned by such person and convertible into Common Stock were deemed to be converted into Common Stock. Such shares were not deemed to be outstanding, however, for the purpose of computing the percentage ownership of any other person.

Stock Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Name of Beneficial Owner		Actual Beneficial Ownership	Percent of Beneficial Ownership(1)
Kenneth Aldrich (2)(3)(4)	Chairman of the Board	9,687,453	15.71%
Jeffrey Janus (2)(3)	Sr. Vice President Operations, CEO and President of Lifeline Cell Technology, Director	2,808,111	4.97%
Andrey Semechkin (2)(5)	Chief Executive Officer, Director	26,912,440	32.45%
Ruslan Semechkin (2)(3)(5)	CEO and President Lifeline Skin Care, Director	26,801,781	32.35%
Brian Lundstrom (2)	President		
Donald Wright (3)	Director	709,168	1.26%
Paul Maier (2)(3)	Director	638,468	1.13%
All Executive Officers and Directors as a Group (7 Persons)		40,644,981	55.44%
5% Holders			
X-Master, Inc. (5)		12,000,000	17.64%

(1) Based on 56,034,835 shares currently outstanding plus shares issuable under derivative securities which are exercisable within 60 days of February 28, 2010.

(2) The business address for each director and officer is 2595 Jason Court, Oceanside, CA 92056.
(3) Includes options to purchase shares of our common stock exercisable within 60 days of February 28, 2010.
(4) Mr. Aldrich's shares are held, in part, through YKA Partners, a California limited partnership. Mr. Aldrich is the investment manager of YKA Partners and controls the disposition of these shares. The address for YKA Partners is 2595 Jason Court, Oceanside, CA 92056.
(5) The business address for X-Master, Inc. is 1 Overlook Drive, Unit 11, Amherst, New Hampshire 03031. X-Master Inc. is owned by Dr. Andrey Semechkin. Dr. Ruslan Semechkin is the President of X-Master, Inc. Ruslan Semechkin and Andrey Semechkin are deemed to hold the same number of shares including shares held by X-Master.

EQUITY COMPENSATION PLAN INFORMATION

The following table sets forth information regarding outstanding options and shares reserved for future issuance under our current equity compensation plans as of December 31, 2009:

Plan Category	Number of Shares to Be Issued upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Shares Remaining Available for Future Issuance under Equity Compensation Plans (Excluding Shares Reflected in Column (a)) (c)
Equity compensation plans approved by stockholders(1)	15,000,000	$ .76	6,897,963

(1) Represents stock options under the 2006 Equity Participation Plan (the "Plan"). The options granted under the Plan may be either qualified or non-qualified options. Up to 15,000,000 options may be granted to employees, directors and consultants under the Plan. Options may be granted with different vesting terms and expire no later than 10 years from the date of grant. In 2009, the company had 8,102,037 options outstanding granted under the plan with a weighted average exercise price of $ .76. Stockholders approved the Plan effective December 1, 2006.

As of December 31, 2009, we had reserved 15,000,000 shares of our Common Stock for issuance under the 2006 Stock Plan. At December 31, 2009, there were 8,102,037 shares issuable upon exercise of outstanding options under the 2006 Stock Plan, at a weighted average exercise price of $ 0.76. Options granted under the 2006 Stock Plan will generally have a 10-year term and vest at the rate of 2% per month commencing the following month of grant. Options granted under our 2006 Stock Plan provide for full acceleration of the unvested portion of an option if the option is not assumed or substituted by an acquiring entity upon a "Change in Control," as defined under the 2006 Stock Plan.

Item 13. RELATED PERSON TRANSACTIONS

Pursuant to our Code of Business Conduct and Ethics, our executive officers, directors, and principal stockholders, including their immediate family members and affiliates, are prohibited from entering into transactions which create, or would appear to create, a conflict of interest with us. Our Audit Committee is responsible for reviewing and approving related party transactions. Our Audit Committee shall approve only those agreements that, in light of known circumstances, are in, or are not inconsistent with, our best interests, as our Audit Committee determines in the good faith exercise of its discretion.

Except with respect to the transactions described below, none of our directors or executive officers, nor any person who beneficially owns, directly or indirectly, shares carrying more than 10% of the voting rights attached to our outstanding shares, nor any of our promoters, nor any relative or spouse of any of the foregoing persons has any material interest, direct or indirect, in any transaction for the past two years or in any presently proposed transaction to which we were or are to be party. None of our directors or executive officers is indebted to us.

As of December 31, 2009, we owed an aggregate of $292,009 to Kenneth C. Aldrich, our Chief Executive Officer and Chairman, and William B. Adams, our Chief Financial Officer, Secretary and Director, (until June 2009) for a management fee owed to them by ISC California. The management fee relates to the management of the Lifeline Cell Technology, LLC, the wholly-owned operating subsidiary of ISC California, from inception until November 1, 2006. Messrs. Aldrich and Adams each accrued the management fee at a rate of $5,000 per month per person plus accrued interest at 10% per annum on the unpaid balance until June 1, 2006, when each person's management fee was increased to $10,000 per month, per person. When Mr. Adams and Aldrich became employees of ISC California on November 1, 2006, accrual of the management fee ceased.

From time to time, various persons, including certain officers, directors, principal shareholders, and their affiliates, have advanced funds to Lifeline and/or ISC California for operating expenses. All such advances have been repaid with the exception of a balance owed to Mr. Aldrich on December 31, 2009 of $177,664. In connection with certain of such advances, warrants were issued to the lenders. During the last quarter of 2007, Mr. Aldrich loaned the company $500,000, which was to be converted into preferred stock when the company started to raise money through its Series A Preferred Stock placement efforts. This loan was converted into shares of preferred stock in January 2008 on the same terms as were afforded to unaffiliated investors who purchased Series A preferred stock.

During 2009, as part of the Series D Preferred Stock Purchase Agreement (the "Series D Agreement") with X-Master, Inc., Andrey Semechkin and Ruslan Semechkin to sell for up to five million dollars ($5,000,000) up to fifty shares of Series D Preferred Stock ("Series D Preferred") at a price of $100,000 per Series D Preferred share, we sold 10 shares on January 23, 2009; 10 shares were sold on March 16, 2009; 10 shares were sold on June 30, 2009; and 3 shares were sold on October 1, 2009. The total amount of capital raised under this agreement for 2009 was $3,300,000, 33 share of Series D Preferred Stock was issued, which converts into 13,200,000 shares of common stock. In connection with the Series D Agreement, the Company also entered into an Investor Rights Agreement (the "Investor Rights Agreement") with the investors. Pursuant to the Investor Rights Agreement, the investors have a participation right, whereby they may purchase their pro rata share of any privately offered new securities being offered by the Company, subject to certain exceptions. The Investor Rights Agreement also requires that the Company obtain approval from the Board of Directors, including the affirmative vote of the director elected by the Series C Preferred Stock and the director elected by the Series D Preferred Stock, for specified transactions.

In addition, as part of the Series D Financing Agreement, we have recognized in our 2009 financial statements dividends of $100,000 to X-Master, Inc. and dividends of $231,041 to Andrey Semechkin.

In addition, during 2009, the Company owed Andrey Semechkin $360,000. On October 20, 2009, Mr. Semechkin opted to convert the principle balance of loan plus interest accrued of $21,700, for a total of $381,700, into 1,526,820 shares of the Company's common stock.

Director Independence

The Board of Directors has determined that each of Mr. Maier and Mr. Wright satisfy the independence requirements specified in the listing requirements of Nasdaq Marketplace Rules.

Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Principal Accountant Fees and Services	Fiscal 2009	Fiscal 2008
Audit Fees(1)	$130,000	$125,475
Audit-Related Fees(2)	$ —	$ —
Tax Fees(3)	$ —	$ —
All Other Fees(4)	$ —	$ —

(1) Audit Fees consist of fees billed for professional services rendered for the audit of the Company's consolidated annual financial statements and review of the interim consolidated financial statements included in quarterly reports and services that are normally provided by our independent auditors in connection with statutory and regulatory filings or engagements.

(2) Audit-Related Fees consist of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of our consolidated financial statements and are not reported under "Audit Fees."

(3) Tax Fees consist of fees billed for professional services rendered for tax compliance, tax advice and tax planning (domestic and international). These services include assistance regarding federal, state and international tax compliance, acquisitions and international tax planning.

(4) All Other Fees consist of fees for products and services other than the services reported above.

The Audit Committee's policy is to pre-approve all audit and permissible non-audit services provided by our independent auditors. These services may include audit services, audit-related services, tax services and other services. Pre-approval is generally provided for up to one year and any pre-approval is detailed as to the particular service or category of services. The independent auditor and management are required to periodically report to the Audit Committee regarding the extent of services provided by the independent auditor in accordance with this pre-approval.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

Exhibit Number	Description
3.1	Certificate of Incorporation (incorporated by reference to Exhibit 3.4 of the issuer'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 Issuer'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 Issuer's Preliminary Information Statement on Form 14C filed on December 29, 2006).
4.1	Form of Specimen Common Stock Certificate.
4.2	Certification of Designation of Series A Preferred Stock (incorporated by reference to Exhibit 4.1 of the Issuer's Form 8-K filed on January 17, 2008).
4.3	Certification of Designation of Series B Preferred Stock (incorporated by reference to Exhibit 4.1 of the Issuer's Form 8-K filed on May 12, 2008).
4.4	Certification of Designation of Series C Preferred Stock (incorporated by reference to Exhibit 10.2 of the Issuer's Form 8-K filed on August 21, 2008).
4.5	Certification of Designation of Series D Preferred Stock (incorporated by reference to Exhibit 10.2 of the Issuer's Form 8-K filed on January 5, 2009).
4.6	Certificate of Designation of Series E Preferred Stock (incorporated by reference to Exhibit 10.2 of the Issuer's Form 8-K filed on July 6, 2009).
4.7	Warrant Certificate for warrants in connection with Series A Preferred Stock (incorporated by reference to Exhibit 10.2 of the Issuers Form 8-K filed on January 17, 2008).
4.8	Warrant Certificate for warrants in connection with Series B Preferred Stock (incorporated by reference to Exhibit 10.2 of the Issuers Form 8-K filed on May 12, 2008).
10.1	Employment Agreement, dated December 1, 2006, by and between International Stem Cell and Kenneth C. Aldrich (incorporated by reference to Exhibit 10.1 of the Registrant's Form 8-K filed on December 29, 2006).
10.2	Employment Agreement, dated October 31, 2006, by and between International Stem Cell and Jeffrey Janus (incorporated by reference to Exhibit 10.4 of the Registrant's Form 8-K filed on December 29, 2006).

10.3	First Amendment to Exclusive License Agreement (ACT IP), dated as of August 1, 2005, by and between Advanced Cell, Inc. and Lifeline (incorporated by reference to Exhibit 10.9 of the Registrant's Form 8-K filed on December 29, 2006).
10.4	First Amendment to Exclusive License Agreement (UMass IP) dated as of August 1, 2005, by and between Advanced Cell, Inc. and Lifeline (incorporated by reference to Exhibit 10.10 of the Registrant's Form 8-K filed on December 29, 2006).
10.5	First Amendment to Exclusive License Agreement (Infigen IP) dated as of August 1, 2005, by and between Advanced Cell, Inc. and Lifeline (incorporated by reference to Exhibit 10.11 of the Registrant's Form 8-K filed on December 29, 2006).
10.6	Exclusive License Agreement (Infigen IP), dated as of May 14, 2004, by and between Advanced Cell Technology, Inc and PacGen Cellco, LLC (predecessor company of Lifeline) (incorporated by reference to Exhibit 10.12 of the Registrant's Form 8-K filed on December 29, 2006).
10.7	Exclusive License Agreement (ACT IP), dated as of May 14, 2004, by and between Advanced Cell Technology, Inc. and PacGen Cellco, LLC (predecessor company of Lifeline) (incorporated by reference to Exhibit 10.13 of the Registrant's Form 8-K filed on December 29, 2006).
10.8	Exclusive License Agreement (UMass IP), dated as of May 14, 2004, by and between Advanced Cell Technology, Inc. and PacGen Cellco, LLC (predecessor company of Lifeline) (incorporated by reference to Exhibit 10.14 of the Registrant's Form 8-K filed on December 29, 2006).
10.9	International Stem Cell Corporation 2006 Equity Participation Plan (incorporated by reference to Exhibit 10.15 of the Registrant's Form 8-K filed on December 29, 2006).
10.10	Securities Purchase Agreement of May 14, 2008 for sale of OID Senior Secured Convertible Note and Warrants (incorporated by reference to Exhibit 10.1 of the Issuers Form 8-K filed on May 16, 2008).
10.11	OID Senior Secured Convertible note (incorporated by reference to Exhibit 10.2 of the Issuers Form 8-K filed on May 16, 2008).
10.12	Common Stock Purchase Warrant issued with OID Senior Convertible Note (incorporated by reference to Exhibit 10.3 of the Issuers Form 8-K filed on May 16, 2008).
10.13	Multiple Advance Convertible Note (incorporated by reference to Exhibit 10.1 of the Issuers Form 8-K filed on August 18, 2008).
10.14	Common Stock Purchase Warrant issued with Multiple Advance Convertible Note (incorporated by reference to Exhibit 10.2 of the Issuers Form 8-K filed on August 18, 2008).
10.15	Employment Agreement with Andrey Semechkin (incorporated by reference to Exhibit 10.4 of the Issuers Form 8-K filed on January 5, 2009).
10.16	Employment Agreement with Ruslan Semechkin (incorporated by reference to Exhibit 10.5 of the Issuers Form 8-K filed on January 5, 2009).
10.17	Preferred Stock Purchase Agreement dated June 30, 2009 (incorporated by reference to Exhibit 10.1 of the Issuer's Form 8-K filed on July 6, 2009).
10.18	Employment Agreement with Brian Lundstrom dated November 5, 2009.
10.19	Form of Stock Option Agreement for stock options granted outside of the 2006 Equity Participation Plan.
21.1	Subsidiaries of the Registrant (incorporated by reference to Exhibit 21.1 of the Registrant's Form 8-K filed on December 29, 2006).
23.1	Consent of Vasquez & Company LLP.

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.

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SIGNATURES

In accordance with Section 13 or 15(d) 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

By: /S/ RAY WOOD
Name: **Ray Wood**
Title: **Chief Financial Officer**

Dated: March 23, 2010

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature:	Capacity:	Date:
/S/ KENNETH C. ALDRICH **Kenneth C. Aldrich**	Chairman of the Board	March 23, 2010
/S/ ANDREY SEMECHKIN **Andrey Semechkin**	Chief Executive Officer and Director (Principal Executive Officer)	March 23, 2010
/S/ JEFFREY D. JANUS **Jeffrey D. Janus**	Sr. Vice President Operations and Director	March 23, 2010
/S/ RAY WOOD **Ray Wood**	Chief Financial Officer (Principal Financial and Accounting Officer)	March 23, 2010
/S/ RUSLAN SEMECHKIN **Ruslan Semechkin**	Director	March 23, 2010
/S/ DONALD A. WRIGHT **Donald A. Wright**	Director	March 23, 2010
/S/ PAUL V. MAIER **Paul V. Maier**	Director	March 23, 2010

Consolidated Financial Statements
International Stem Cell Corporation and Subsidiary
(A Development Stage Company)
Years Ended December 31, 2009 and 2008

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
International Stem Cell Corporation
(A Development Stage Company)
Oceanside, California

We have audited the accompanying consolidated balance sheets of International Stem Cell Corporation and subsidiaries (a development stage company) (the "Company") as of December 31, 2009 and 2008, and the related consolidated statements of operations, members' deficit and stockholders' equity and cash flows for the years then ended and for the period from inception (August 17, 2001) through December 31, 2009. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of International Stem Cell Corporation and subsidiaries as of December 31, 2009 and 2008, and the results of their operations and their cash flows for the years then ended and for the period from inception (August 17, 2001) through December 31, 2009, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company expects to incur losses and needs to raise capital, which raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of the uncertainty.

/s/ Vasquez & Company LLP
Los Angeles, California
March 22, 2010

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INTERNATIONAL STEM CELL CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

	December 31, 2009	December 31, 2008
Assets		
Current assets		
Cash and cash equivalents	$ 726,829	$ 381,822
Accounts receivable	130,988	81,898
Inventory	631,309	417,343
Prepaid assets	245,976	75,428
Total current assets	1,735,102	956,491
Property and equipment, net	1,209,509	625,870
Patent licenses, net	737,507	637,205
Deposits and other assets	22,383	22,186
Total assets	$ 3,704,501	$ 2,241,752
Liabilities, Members' Deficit and Stockholders' Equity		
Current liabilities		
Accounts payable	$ 369,050	$ 465,034
Accrued expenses	631,762	231,488
Convertible debt and advances	250,000	690,994
Warrants to purchase common stock	1,103,223	—
Related party payable	469,673	420,931
Total liabilities	2,823,708	1,808,447
Long-Term Perpetual Preferred Stock	2,033,288	—
Members' Deficit and Stockholders' Equity		
Common stock, $0.001 par value 200,000,000 shares authorized, 56,034,835 and 38,410,675 issued and outstanding in 2009 and 2008, respectively	56,035	38,410

Preferred stock, $0.001 par value 20,000,000 shares authorized, 3,000,243and 3,550,010 issued and outstanding in 2009 and 2008, respectively	3,000	3,550
Note Subscription on Perpetual Preferred Stock	(2,708,988)	—
Additional paid-in capital	38,067,152	24,491,311
Deficit accumulated during the development stage	(36,569,694)	(24,099,966)
Total members' deficit and stockholders' equity	(1,152,495)	433,305
Total liabilities, members' deficit and stockholders' equity	$ 3,704,501	$ 2,241,752

See accompanying notes to consolidated financial statements

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INTERNATIONAL STEM CELL CORPORATION AND SUBSIDIARIES

Consolidated Statements of Operations

	Year Ended December 31, 2009	Year Ended December 31, 2008	Inception (August17, 2001) through December 31, 2009
Product sales	$ 1,121,164	$ 367,771	$ 1,530,685
Royalties and license	—	135,000	135,000
Total revenue	1,121,164	502,771	1,665,685
Development expenses			
Cost of sales	789,705	129,257	990,831
Research and development	2,164,450	1,946,704	10,486,266
Marketing	526,641	380,895	1,538,992
General and administrative	4,839,297	3,579,044	16,252,108
Total development expenses	8,320,093	6,035,900	29,268,197
Loss from development activities	(7,198,929)	(5,533,129)	(27,602,512)
Other income (expense)			
Settlement with related company	720	—	(92,613)
Miscellaneous	—	—	8,643
Dividend & interest income	9,227	1,682	65,240
Interest expense	(94,587)	(1,048,277)	(2,210,995)
Change in market value of warrants	(498,183)	—	(799,598)
Sublease income	9,100	8,400	46,229
Total other income (loss)	(573,723)	(1,038,195)	(2,983,094)
Loss before tax	(7,772,652)	(6,571,324)	(30,585,606)
Provision for income taxes	—	—	6,800
Net loss	$ (7,772,652)	$ (6,571,324)	$ (30,592,406)
Dividend on preferred stock			

	(4,395,661)	(1,581,627)	(5,977,288)
Net loss applicable to common shareholders	$(12,168,313)	$ (8,152,951)	$ (36,569,694)
Net loss per common share—basic and diluted	$ (0.26)	$ (0.22)	n/a
Weighted average shares—basic and diluted	46,418,635	36,358,890	n/a

See accompanying notes to consolidated financial statements

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INTERNATIONAL STEM CELL CORPORATION AND SUBSIDIARIES

Consolidated Statements of Members' Deficit and Stockholders' Equity
From Inception to December 31, 2009

	Common Stock		Preferred Stock Issued			Additional		Total	
	Shares	Amount	Shares	Amount	Note Subscription on Perpetual	Paid-in Capital	Accumulated Deficit	Stockholders' Equity	Members' 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 contributions									250,000
Net loss for the year ended									(390,751)
Balance at December 31, 2002									(181,747)
Members contributions									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)
Activity through December 31, 2004									(250,360)
Members contributions									780,000
Net loss for the year ended December 31, 2002									(1,385,745)
Balance at December 31, 2005									(856,105)
Members contribution									250,000
Effect of the Reorganization Transactions	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			3,550,010	3,550		4,546,450		4,550,000	
Warrants issued and beneficial conversion feature						910,963		910,963	
Issuance of Common Stock for services	3,041,180	3,041				593,358		596,399	
Stock-based compensation						734,867		734,867	
Deemed Dividend						1,581,627	(1,581,627)	—	
Net loss for the year ended December 31, 2008							(6,571,324)	(6,571,324)	
Balance at December 31, 2008	38,410,675	38,410	3,550,010	3,550	—	24,491,311	(24,099,966)	433,305	
Issuance of Preferred Stock			37			3,681,700		3,681,700	
Preferred Stock Subscription									
Issuance of Common Stock									
For services									

	1,208,140	1,208				940,974		942,182
From conversion of preferred stock	3,726,800	3,727	(550,004)	(550)		(3,177)		—
From conversion of debt	2,000,000	2,000				498,000		500,000
From exercise of warrants	4,392,386	4,392			(2,700,000)	3,659,471		963,863
From cashless exercise of warrants	3,510,206	3,511				(3,511)		—
For cash	2,786,628	2,787				1,397,213		1,400,000
Stock-based compensation						409,625		409,625
Warrants issued for services						281,416		281,416
Options issued for services						106,058		106,058
Deemed Dividend						3,161,700	(4,031,332)	(869,632)
Cumulative effect adjustment—warrant liabilities						(303,628)	(301,415)	(605,043)
Equity placement shares						(250,000)		(250,000)
Dividend on preferred stock							(364,329)	(364,329)
Net loss for the year ended December 31, 2009					(8,988)		(7,772,652)	(7,781,640)
Balance at December 31, 2009	56,034,835	$56,035	3,000,043	$ 3,000	$ (2,708,988)	$38,067,152	$(36,569,694)	$ (1,152,495)

See accompanying notes to consolidated financial statements

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INTERNATIONAL STEM CELL CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

	December 31, 2009	December 31, 2008	Inception (August 17, 2001) through December 31, 2009
Cash flows from operating activities			
Net loss	$(7,772,652)	$(6,571,324)	$ (30,592,406)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	205,948	163,055	658,420
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 expense	797,099	734,867	2,801,836
Common stock issued for services	942,182	596,399	2,888,581
Change in market value of warrants	498,183	—	799,598
Amortization of debt discount on convertible debt	67,227	1,013,735	1,080,962
Interest on note receivable	(8,988)	—	(8,988)
Changes in operating assets and liabilities:			
(Increase) in accounts receivable	(49,090)	(71,709)	(130,988)
(Increase) in inventory	(213,966)	(241,707)	(631,309)
(Increase) decrease in prepaid assets	(170,548)	43,607	(245,976)
(Increase) in deposits	(197)	(2,543)	(22,383)
Increase (decrease) in accounts payable	(95,984)	(28,392)	369,050
Increase in accrued expenses	531,971	98,816	772,962
Increase (decrease) in related party payables	40,521	(485,130)	305,169
Net cash used in operating activities	(5,228,294)	(4,750,326)	(20,992,263)
Investing activities			

Purchases of property and equipment	(731,017)	(254,353)	(1,624,585)
Payments for patent licenses	(158,872)	(63,843)	(980,850)
Net cash used in investing activities	(889,889)	(318,196)	(2,605,435)
Financing activities			
Proceeds from members' contribution	—	—	2,685,000
Issuance of common stock	1,494,231	—	13,249,180
Issuance of preferred stock	5,300,000	4,550,000	9,850,000
Issuance of convertible promissory notes	—	—	2,099,552
Payment of preferred stock dividends	(331,041)	—	(331,041)
Payment of promissory notes	—	—	(2,202,856)
Payment of offering costs	—	—	(1,760,308)
Proceeds from convertible debt, advances and loan payable	—	1,360,000	1,360,000
Payment of loan payable	—	(625,000)	(625,000)
Net cash provided by financing activities	6,463,190	5,285,000	24,324,527
Net increase in cash and cash equivalents	345,007	216,478	726,829
Cash and cash equivalents at beginning of period	381,822	165,344	—
Cash and cash equivalents at end of period	$ 726,829	$ 381,822	$ 726,829
Supplemental disclosures of cash flow information			
Cash paid for interest	$ 22,929	$ 117,140	$ 341,354
Cash paid for income taxes	$ 3,265	$ 7,083	$ 10,348
Non-cash financing activities:			
Discount on convertible debt from beneficial conversion feature	$ —	$ 641,331	$ 641,331
Discount on convertible debt from warrants	$ —	$ 269,632	$ 269,632
Deemed dividend	$ 4,064,620	$ 1,581,627	$ 5,646,247
Conversion of debt to common stock	$ 500,000	$ —	$ 500,000
Accrual of equity placement costs			

	$ 250,000	$ —	$ 250,000
Warrants issued for placement agent services	$ —	$ —	$ 1,230,649
Warrants issued with promissory notes	$ —	$ —	$ 637,828
Non-cash sale of preferred stock	$ 381,700	$ —	$ 381,700

See accompanying notes to consolidated financial statements

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

Notes to Consolidated Financial Statements

1. Organization and Significant Accounting Policies

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, LLC, 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 and manufacturing human embryonic stem cells and reagents free from animal protein contamination. 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.

On July 1, 2006, Lifeline entered into an agreement among Lifeline, ISC California and the holders of membership units and warrants for the purchase of membership interests of Lifeline. Pursuant to the terms of the agreement, all the membership units in Lifeline were exchanged for 20,000,000 shares of ISC California Common Stock and for ISC California's assumption of Lifeline's obligations under the warrants. Lifeline became a wholly owned subsidiary of ISC California.

Lifeline Skin Care, LLC ("SkinCare") was formed in the State of California on June 5, 2009 and is a wholly-owned subsidiary of ISC California. SkinCare creates cosmetic skin care products derived from our human cell technologies and will develop, manufacture and distribute cosmeceutical products.

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. Thereafter, the Company will need 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 burn rate of approximately $550,000 per month and the timing of its capital expenditures will result in cash flow sufficient to sustain the Company's operations through 2010. Based on the above, there is substantial doubt about the Company's ability to continue as 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 maintaining its burn rate, the proper timing of its capital expenditures, and raising additional capital or financing in the future.

Basis of Presentation

International Stem Cell Corporation was formed in June 2006. BTHC III, Inc. was a shell company that had no operations and no net assets. For accounting purposes the acquisition has been treated as a recapitalization of BTHC III with ISC California as the accounting acquirer (reverse acquisition). The historical statements prior to June 2006 are those of Lifeline Cell Technology, the wholly-owned subsidiary of ISC California.

Principles of Consolidation

The Company's consolidated financial statements include the accounts of International Stem Cell Corporation and its subsidiaries after intercompany balances and transactions have been eliminated.

Cash Equivalents

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

Inventory

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

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

Notes to Consolidated Financial Statements—(Continued)

Accounts Receivable

Trade accounts receivable are recorded at the net invoice value and are not interest bearing. The Company considers receivables past due based on the contractual payment terms. The Company reviews its exposure to amounts receivable and reserves specific amounts if collectibility is no longer reasonably assured.

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 amortized over the shorter of the remaining term of the lease or the life of the asset.

Patent Licenses

Patent licenses, net, consists of acquired research and development rights used in research and development, which have alternative future uses. Patent licenses are recorded at cost of $980,850 and $821,978 at December 31, 2009 and 2008, 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 amounted to $58,570 and $51,786 for the years ended December 31, 2009 and 2008, respectively, and is included in research and development expense. Accumulated amortization as of December 31, 2009 and 2008 are $243,343 and $184,773, respectively. Additional information regarding patent licenses is included in Note 4.

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 December 31, 2009.

Product Sales

In accordance with the provisions of ASC Topic 605, Revenue Recognition, revenue from product sales is recognized at the time of shipment to the customer provided all other revenue recognition criteria have been met. If the customer has a right of return, 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.

Revenue Arrangements with Multiple Deliverables

The Company sometimes enters into revenue arrangements that contain multiple deliverables which is also covered by the provisions of ASC Topic 605, Revenue Recognition. This issue addresses the timing and method of revenue recognition for revenue arrangements that include the delivery of more than one product or service. In these cases, the Company recognizes revenue from each element of the arrangement as long as separate value for each element can be determined, the Company has completed its obligation to deliver or perform on that element, and collection of the resulting receivable is reasonably assured.

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 provisions of ASC Topic 825-20, Financial Instruments—Registration Payment Arrangements, 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.

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

Notes to Consolidated Financial Statements—(Continued)

Income Taxes

The Company accounts for income taxes in accordance with the provisions of ASC Topic 740, *Income Taxes* which requires the Company to provide a net deferred tax asset/liability equal to the expected future tax benefit/expense of temporary reporting differences between book and tax accounting methods and any available operating loss or tax credit carryforwards. The Company has available at December 31, 2009, net operating loss carryforwards of approximately $25,380,000, which may be applied against future taxable income and will expire in various years through 2025. At December 31, 2008, the company had operating loss carryforwards of approximately $15,274,000. The increase in carryforwards for the year ended December 31, 2009, is approximately $10,106,000.

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 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 primarily in the United States. Bank accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 for the year end December 31, 2009 and 2008 per financial institution. At December 31, 2009 and 2008, the Company's cash balances on deposit with the financial institutions in excess of the FDIC insurance limit amounted to $526,086 and $131,822, respectively.

Fair Value of Financial Instruments

The Company believes that the carrying value of its cash and cash equivalents, accounts payable and accrued liabilities as of December 31, 2009 and 2008 approximate their fair values because of the short-term nature of those instruments.

Fair Value Measurements

On January 1, 2008, the Company adopted the provisions of ASC Topic 820, Fair Value Measurements and Disclosures. Fair value is defined 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 at the measurement date. Assets and liabilities that are measured at fair value are reported using a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy maximizes the use of observable inputs and minimizes the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

Level 1	Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
Level 2	Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability; and
Level 3	Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity).

The following table sets forth the Company's financial assets and liabilities measured at fair value by level within the fair value hierarchy. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

The table below sets forth a summary of the fair values of the Company's warrants as of December 31, 2009.

	Total	Level 1	Level 2	Level 3
LIABILITIES:				
Fair value of warrants	$1,103,223	$ —	$ —	$1,103,223

Equity-linked financial instruments consist of stock warrants issued by the Company that contain a strike price adjustment feature. In accordance with the provisions of ASC Topic 815, *Derivatives and Hedge Accounting*, we calculated the fair value of warrants using the Black Scholes option pricing model and the assumptions used are described above.

Income (Loss) Per Common Share

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 year end, December 31, 2009, there were 9,316,650 warrants, 3,400,914 vested stock options and 4,701,123 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.

Recent Accounting Pronouncements

In February 2010, the FASB issued Accounting Standards Update (ASU) 2010-10, Consolidation (Topic 10): Amendments for Certain Funds. ASU 2010-10 defers the effective date of certain amendments to the consolidation requirements of ASC Topic 810, Consolidation, resulting from the issuance of FAS 167, Amendments to FASB Interpretation No. 46(R). Specifically, the amendments to the consolidation requirements of Topic 810 resulting from the issuance of FAS 167 are deferred for a reporting entity's interest in an entity (1) that has all the attributes of an investment company; or (2) for which it is industry practice to apply measurement principles for financial reporting purposes that are consistent with those followed by investment companies. The ASU does not defer the disclosure requirements in

FAS 167 amendments to Topic 810. The amendments in this ASU are effective as of the beginning of a reporting entity's first annual period that begins after November 15, 2009, and for interim for interim periods within that first annual reporting period. Early application is not permitted. The provisions of ASU 2010-10 is not expected to have an impact on the Company’s financial statements.

In February 2010, the FASB issued ASU 2010-09, Subsequent Events (Topic 855): Amendments to Certain Recognition and Disclosure Requirements. ASU 2010-09 removes the requirement for an SEC filer to disclose a date through which subsequent events have been evaluated in both issued and revised financial statements. Revised financial statements include financial statements revised as a result of either correction of an error or retrospective application of U.S. GAAP. The FASB also clarified that if the financial statements have been revised, then an entity that is not an SEC filer should disclose both the date that the financial statements were issued or available to be issued and the date the revised financial statements were issued or available to be issued. The FASB believes these amendments remove potential conflicts with the SEC’s literature. In addition, the amendments in the ASU requires an entity that is a conduit bond obligor for conduit debt securities that are traded in a public market to evaluate subsequent events through the date of issuance of its financial statements and must disclose such date. All of the amendments in the ASU were effective upon issuance (February 24, 2010) except for the use of the issued date for conduit debt obligors. That amendment is effective for interim or annual periods ending after June 15, 2010. The provisions of ASU 2010-09 did not have a material impact on the Company’s financial statements.

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Notes to Consolidated Financial Statements—(Continued)

In February 2010, the FASB issued ASU No. 2010-08, Technical Corrections to Various Topics, thereby amending the FASB Accounting Standards CodificationTM (Codification). This ASU resulted from a review by the FASB of its standards to determine if any provisions are outdated, contain inconsistencies, or need clarifications to reflect the FASB's original intent. The FASB believes the amendments do not fundamentally change U.S. GAAP. However, certain clarifications on embedded derivatives and hedging reflected in Topic 815, Derivatives and Hedging, may cause a change in the application of the guidance in Subtopic 815-15. Accordingly, the FASB provided special transition provisions for those amendments. The ASU contains various effective dates. The clarifications of the guidance on embedded derivatives and hedging (Subtopic 815-15) are effective for fiscal years beginning after December 15, 2009. The amendments to the guidance on accounting for income taxes in a reorganization (Subtopic 852-740) applies to reorganizations for which the date of the reorganization is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. All other amendments are effective as of the first reporting period (including interim periods) beginning after the date this ASU was issued (February 2, 2010). The provisions of ASU 2010-08 is not expected to have an impact on the Company's financial statements.

In January 2010, the FASB issued ASU No. 2010-06, Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements. ASU 2010-06 amends Codification Subtopic 820-10 to add two new disclosures: (1) transfers in and out of Level 1 and 2 measurements and the reasons for the transfers, and (2) a gross presentation of activity within the Level 3 roll forward. The proposal also includes clarifications to existing disclosure requirements on the level of disaggregation and disclosures regarding inputs and valuation techniques. The proposed guidance would apply to all entities required to make disclosures about recurring and nonrecurring fair value measurements. The effective date of the ASU is the first interim or annual reporting period beginning after December 15, 2009, except for the gross presentation of the Level 3 roll forward information, which is required for annual reporting periods beginning after December 15, 2010 and for interim reporting periods within those years. Early application is permitted. The Company is currently assessing the impact that the adoption will have on its financial statements.

In January 2010, the FASB issued two ASU's that (1) codify SEC Observer comments made at the June 2009 EITF meeting and (2) make technical corrections to several SEC sections of the FASB Codification. In general, the two ASU's, do not change existing practice. ASU 2010-05, Compensation—Stock Compensation (Topic 718)—Escrowed Share Arrangements and the Presumption of Compensation, codifies EITF Topic D-110, Escrowed Share Arrangements and the Presumption of Compensation, which provides the SEC staff's view on when an escrowed share arrangement involving shareholders is presumed to be compensatory and the factors to consider when analyzing whether that presumption has been overcome. The SEC Observer announced the views captured in EITF Topic D-110 at the June 2009 EITF meeting. ASU 2010-04, Accounting for Various Topics—Technical Corrections to SEC Paragraphs, primarily includes technical corrections to various topics containing SEC guidance as a result of recently-issued authoritative guidance and updates for Codification references. These two ASU's do not have an impact on the Company's financial statements.

In January 2010, the FASB issued ASU No. 2010-03, Extractive Activities—Oil and Gas (Topic 932): Oil and Gas Reserve Estimation and Disclosures. The FASB's objective in issuing the ASU was to align the oil and gas reserve estimation and disclosure requirements in ASC 932 with the requirements in the SEC final rule, Modernization of Oil and Gas Reporting. The amendments to the Codification in this ASU are designed to improve the reserve estimation and disclosure requirements of Topic 932 by: (a) updating the reserve estimation requirements for recent changes in practice and technology; and (b) expanding the disclosure requirements for equity method investments. ASU 2010-03 is effective for annual reporting periods ending on or after December 31, 2009. Entities should apply the adoption of the amendments as a change in accounting principle inseparable from a change in estimate. The amendments in ASU 2010-03 specify the required disclosures for the effect of adoption, and early adoption is not permitted. The provisions of ASU 2010-03 does not have an impact on the Company's financial statements.

In January 2010, the FASB issued ASU No. 2010-02, Consolidation (Topic 810)—Accounting and Reporting for Decreases in Ownership of a Subsidiary—A Scope Clarification. This ASU clarifies that the scope of the decrease in ownership provisions of Subtopic 810-10 and related guidance applies to (1) a subsidiary or group of assets that is a business or nonprofit activity; (2) a subsidiary that is a business or nonprofit activity that is transferred to an equity method investee or joint venture; and (3) an exchange of a group of assets that constitutes a business or nonprofit activity for a noncontrolling interest in an entity (including an equity method investee or joint venture). ASU 2010-02 also clarifies that the decrease in ownership guidance in Subtopic 810-10 does not apply to: (a) sales of in substance real estate; and (b) conveyances of oil and gas mineral rights, even if these transfers involve businesses. The amendments in this ASU expand the disclosure requirements about deconsolidation of a subsidiary or derecognition of a group of assets. ASU 2010-02 is effective beginning in the period that an entity adopts FASB Statement No. 160, Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB 51 (now included in Subtopic 810-10). If an entity has previously adopted Statement 160, the amendments are effective beginning in the first interim or annual reporting period ending on or after December 15, 2009. The amendments in ASU 2010-02 should be applied retrospectively to the first period that an entity adopts Statement 160. The provisions of ASU 2010-02 did not have an impact on the Company's financial statements.

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Notes to Consolidated Financial Statements—(Continued)

In January 2010, the FASB issued ASU No. 2010-01, Equity (Topic 505): Accounting for Distributions to Shareholders with Components of Stock and Cash. The amendments to the Codification in this ASU clarify that the stock portion of a distribution to shareholders that allows them to elect to receive cash or stock with a potential limitation on the total amount of cash that all shareholders can elect to receive in the aggregate is considered a share issuance that is reflected in earnings per share prospectively and is not a stock dividend. This ASU codifies the consensus reached in EITF Issue No. 09-E, Accounting for Stock Dividends, Including Distributions to Shareholders with Components of Stock and Cash. ASU 2010-01 is effective for interim and annual periods ending on or after December 15, 2009, and should be applied on a retrospective basis. This ASU did not have an impact on the Company's financial statements.

In December 2009, the FASB issued ASU 2009-17, Consolidations (Topic 810)—Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities, which codifies FASB Statement No. 167, Amendments to FASB Interpretation No. 46(R). ASU 2009-17 represents a revision to former FASB Interpretation No. 46 (Revised December 2003), Consolidation of Variable Interest Entities, and changes how a reporting entity determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a reporting entity is required to consolidate another entity is based on, among other things, the other entity's purpose and design and the reporting entity's ability to direct the activities of the other entity that most significantly impact the other entity's economic performance. ASU 2009-17 also requires a reporting entity to provide additional disclosures about its involvement with variable interest entities and any significant changes in risk exposure due to that involvement. A reporting entity will be required to disclose how its involvement with a variable interest entity affects the reporting entity's financial statements. ASU 2009-17 is effective at the start of a reporting entity's first fiscal year beginning after November 15, 2009. Early application is not permitted. The provisions of ASU 2009-17 are currently not expected to have an impact on the Company's financial statements.

In December 2009, the FASB issued ASU 2009-16, Transfers and Servicing (Topic 860)—Accounting for Transfers of Financial Assets, which formally codifies FASB Statement No. 166, Accounting for Transfers of Financial Assets into the ASC. ASU 2009-16 represents a revision to the provisions of former FASB Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities and will require more information about transfers of financial assets, including securitization transactions, and where entities have continuing exposure to the risks related to transferred financial assets. Among other things, ASU 2009-16 (1) eliminates the concept of a "qualifying special-purpose entity", (2) changes the requirements for derecognizing financial assets, and (3) enhances information reported to users of financial statements by providing greater transparency about transfers of financial assets and an entity's continuing involvement in transferred financial assets. ASU 2009-16 is effective at the start of a reporting entity's first fiscal year beginning after November 15, 2009. Early application is not permitted. The provisions of ASU 2009-16 are not expected to have a material impact on the Company's financial statements.

In October 2009, the FASB published FASB ASU 2009-15, *Accounting for Own-Share Lending Arrangements in Contemplation of Convertible Debt Issuance or Other Financing*. It includes amendments to Topic 470, Debt, (Subtopic 470-20), and Topic 260, Earnings per Share (Subtopic 260-10), to provide guidance on share-lending arrangements entered into on an entity's own shares in contemplation of a convertible debt offering or other financing. The provisions of ASU 2009-15 is effective for fiscal years beginning on or after December 15, 2009, and interim periods within those fiscal years for arrangements outstanding as of the beginning of those years. Retrospective application is required for such arrangements. The provisions of ASU 2009-15 is effective for arrangements entered into on (not outstanding) or after the beginning of the first reporting period that begins on or after June 15, 2009. Certain transition disclosures are also required. Early application is not permitted. The provisions of ASU 2009-15 is not expected to have an impact on the Company's consolidated financial statements.

In October 2009, the FASB published FASB ASU 2009-14, *Software (Topic 985)—Certain Revenue Arrangements that Include Software Elements*. It changes the accounting model for revenue arrangements that include both tangible products and software elements. Under this guidance, tangible products containing software components and non-software components that function together to deliver the tangible product's essential functionality are excluded from the software revenue guidance in Subtopic 985-605, Software-Revenue Recognition. In addition, hardware components of a tangible product containing software components are always excluded from the software revenue guidance. The provisions of ASU 2009-14 is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Early adoption is permitted. The provisions of ASU 2009-14 is not expected to have an impact on the Company's consolidated financial statements.

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Notes to Consolidated Financial Statements—(Continued)

In October 2009, the FASB published FASB ASU 2009-13, *Revenue Recognition (Topic 605)—Mutliple-Deliverable Revenue Arrangements*. It addresses the accounting for multiple-deliverable arrangements to enable vendors to account for products or services (deliverables) separately rather than as a combined unit. Specifically, this guidance amends the criteria in Subtopic 605-25, Revenue Recognition-Multiple-Element Arrangements, for separating consideration in multiple-deliverable arrangements. This guidance establishes a selling price hierarchy for determining the selling price of a deliverable, which is based on: (a) vendor-specific objective evidence; (b) third-party evidence; or (c) estimates. This guidance also eliminates the residual method of allocation and requires that arrangement consideration be allocated at the inception of the arrangement to all deliverables using the relative selling price method. In addition, this guidance significantly expands required disclosures related to a vendor's multiple-deliverable revenue arrangements. The provisions of ASU 2009-13 is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Early adoption is permitted. The provisions of ASU 2009-13 is not expected to have an impact on the Company's consolidated financial statements.

In September 2009, the FASB published FASB ASU No. 2009-12, *Fair Value Measurements and Disclosures (Topic 820)—Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. It amends Subtopic 820-10, *Fair Value Measurements and Disclosures—Overall*, to permit a reporting entity to measure the fair value of certain investments on the basis of the net asset value per share of the investment (or its equivalent). It also requires new disclosures, by major category of investments, about the attributes includes of investments within the scope of this amendment to the Codification. The provisions of ASU 2009-12 is effective for interim and annual periods ending after December 15, 2009. Early application is permitted. The provisions of ASU 2009-12 is not expected to have an impact on the Company's consolidated financial statements.

2. Inventory

Inventory consists of the following:

	December 31,	
	2009	2008
Raw materials	$133,192	$ 50,529
Work in process	189,679	170,714
Finished goods	308,438	196,100
	$631,309	$417,343

3. Property and Equipment

Property and equipment consists of the following:

	December 31,	
	2009	2008
Machinery and equipment	$ 660,282	$ 328,002
Computer equipment	196,665	173,641
Office equipment	72,307	61,956
Leasehold improvements	661,870	329,970
	1,591,124	893,569
Accumulated depreciation and amortization	(381,615)	(267,699)
	$1,209,509	$ 625,870

Depreciation and amortization expense was $147,378 and $111,269 for the years ended December 31, 2009 and 2008, respectively. From time to time we use equipment that is classified under operating lease arrangements and the expenses related to this equipment is expensed monthly as general and administrative, research and development or sales and marketing expenses.

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Notes to Consolidated Financial Statements—(Continued)

4. 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: UMass IP and ACT IP, which terms are summarized below. The license fees aggregate a total of $400,000 and are 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 notes 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 small cap), 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, 2007 ACT elected to receive payment and was paid in cash in-lieu of conversion of the notes.

International Stem Cell Corporation and Subsidiaries
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Notes to Consolidated Financial Statements—(Continued)

	UMass IP	ACT IP
License fee	$ 150,000	$ 250,000
Royalty rates	3% to 12%	3% to 10%
Minimum royalties		
At 12 months	$ 15,000	$ 22,500
At 24 months	$ 30,000	$ 45,000
At 36 months	$ 45,000	$ 67,500
Annually thereafter	$ 60,000	$ 90,000
Milestone payments		
First commercial product	$ 250,000	$ 500,000
Sales reaching $5,000,000	$ 500,000	$ 1,000,000
Sales reaching $10,000,000	$ 1,000,000	$ 2,000,000

5. Related Party Payables

The Company has incurred obligations to the following related parties:

	December 31, 2009	2008
Management fee	$292,009	$264,648
Loan payable, net of debt discount of $8,221 in 2008	177,664	156,283
Related Party Payables	$469,673	$420,931

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 2007, in an effort to raise additional working capital, the Company and Mr. Aldrich signed a convertible note where Mr. Aldrich would loan the company $500,000 for working capital purposes. Subsequently, the Company decided to raise additional working capital by offering a Private Placement of preferred stock and converted this note payable into shares of preferred stock.

On August 15, 2008, to provide funding for working capital and to convert short term advances to a term Note, the Company issued a Multiple Advance Convertible Note to YKA Partners in the amount of $350,000, with warrants to purchase shares of Common Stock. The Note provides for multiple advances, permits whole or partial repayments without penalty, and is intended to allow the Company to borrow and repay indebtedness as needed to meet operating costs. It is unsecured and subordinate to the Company's outstanding secured debt of $1,000,000, carries an interest rate of 8% per annum and is due and payable on or before January 31, 2009. For the year ended December 31, 2008, YKA Partners, Ltd. advanced $280,000 to the Company of which $125,000 was paid during 2008. At December 31, 2009, YKA Partners was paid in full.

The warrants permit the holder to purchase up to 700,000 shares of common stock from the Company at $0.50 per share until five years from the issuance of the warrants. 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 exercise price of the warrant, such exercise price shall be adjusted downward to equal the price of the new securities.

In August 2008, due to the issuance of equity securities with a conversion rate that is lower than the exercise price of the warrants, the exercise price of the warrants was reduced to $0.25. The estimated adjusted fair value of the warrants was determined using the Black-Scholes valuation model using risk-free interest rate of 3%, volatility rate of 57.9%, term of five years, and exercise price of $0.25. Allocated fair value of the warrants of $80,963 has been recorded as a discount to the related party loan payable and is being amortized over the term of the note using the straight-line method. For the year ended December 31, 2008, amortization of the discount was $72,742. Unamortized discount as of December 31, 2008 was $8,221. For the year ended December 31, 2009, there were no equity securities issued that required a fair value adjustment.

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Notes to Consolidated Financial Statements—(Continued)

6. Convertible Debt and Advances

Convertible debt

On May 14, 2008, to obtain funding for working capital, 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. As of December 31, 2008, the Company has paid $500,000 of the original $1,000,000 note payable to to Gemini Capital. ‘Gemini Master Fund Ltd. converted all of the $500,000 of the note into common stock as of December 31, 2009. Gemini Master Fund Ltd. has released all liens against the Company’s assets.

In accordance with ASC Topic 505, Equity, the Company allocated the $850,000 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 $0.25.

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 were amortized over the term of the notes using the straight-line method. In August 2008, in accordance with the anti-dilution provisions of the debt, the conversion rate and exercise price were reduced to $0.25. Estimated adjusted fair value of the warrants was determined using the Black-Scholes valuation model using risk-free interest rate of 3%, volatility rate of 57.9%, term of five years, and exercise price of $0.25.

The beneficial conversion feature and warrants were adjusted to $641,331 and $188,669, respectively. For the year ended December 31, 2008, amortization of the debt discount from reduction in proceeds, value of the beneficial conversion feature, and value of the warrants were $160,096, $603,389, and $177,508, respectively. Unamortized debt discount as of December 31, 2008 are $9,904, $37,942 and $11,161, 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 December 31, 2009 no revenues were realized from this agreement.

	December 31, 2009	December 31, 2008
Gemini Capital, net of debt discount of $56,006	$ —	$ 440,994
Bio Time, Inc	250,000	250,000
	$ 250,000	$ 690,994

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Notes to Consolidated Financial Statements—(Continued)

7. Capital Stock

As of December 31, 2006, 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 December 31, 2006, the Company has issued and outstanding 33,996,495 shares of common stock and no 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.

On December 27, 2006, the Company's Board of Directors and holders of a majority of the outstanding shares approved an increase in the authorized capital stock of the Company to 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. The increase did not become effective until January 2007.

In November and December of 2006, ISC California issued 9,880,950 shares of common stock for cash at $1.00 per share for net proceeds after commissions and expenses of $8,334,515, net of cash expenses totaling $1,547,433. In addition, ISC California issued 555,552 shares of common stock for $500,000. The holders of the shares are entitled to the following registration rights with respect to the shares: (1) the Company must file a registration statement for the resale of the shares within 60 days from final closing date of February 13, 2007; (2) the registration statement must be declared effective by the SEC no later than 150 days from the final closing date of February 13, 2007; (3) the Company must reply to SEC staff comments within 30 days of receipt; and (4) the Company must maintain the effectiveness of the registration statement for 12 months from the final closing date of February 13, 2007. The first day after failing to perform any of the above is known as the first determination date. The Company is required to deliver penalty shares equal to 1% of the original number of shares entitled to such registration rights, 30 days after the first determination date, and additional shares equal to 1% of the original number of shares entitled to such registration rights each week thereafter, not to exceed 10% except with respect to replying to SEC staff comments within 30 days, which shall not exceed 20%. The Company filed its registration statement on Form SB-2 within 60 days from the final closing and believes the effects of the above penalties are remote. The Company periodically reviews its obligations and corresponding penalties under FAS 5, Accounting for Contingencies, and FSP EITF 00-19-2. Paragraph B9 of FSP EITF 00-19-2, states that entities should recognize and measure the contingent obligation to transfer consideration under a registration payment arrangement using the guidance in Statement 5, instead of requiring that a liability be recognized and measured at fair value at inception.

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 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 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.

International Stem Cell Corporation and Subsidiaries
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Notes to Consolidated Financial Statements—(Continued)

On January 15, 2008, to raise funds, the Company entered into a subscription agreement with accredited investors for the sale between one million and five million of Series A Preferred Stock ("Series A Preferred"). Series A Units consists of one share of Series A Preferred and two Warrants ("Series A Warrants") to purchase Common Stock for each $1.00 invested. The Series A 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 Series A Warrants are exercisable at $0.50 per share. The Series A 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 Series A Preferred or the Series A Warrant shall be adjusted downward to equal the price of the new securities. The Series A Preferred has priority on any sale or liquidation of the Company equal to the purchase price of the Series A 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 Series A Preferred a dividend of the amount of the dividend the Series A Preferred holder would receive if the shares were converted just prior to the dividend declaration. Each share of Series A Preferred has the same voting rights as the number of shares of Common Stock into which it would be convertible on the record date. During the year of 2009, Series A Preferred Stock shareholders converted 400,000 shares of Series A Preferred Stock into 1,600,000 shares of common stock.

On May 12, 2008, to obtain funding for working capital, the Company entered into a series of subscription agreements with a total of five accredited investors for the sale of a total of 400,000 Series B Units, each Series B Unit consisting of one share of Series B Preferred Stock ("Series B Preferred") and two Series B Warrants ("Series B Warrants") to purchase Common Stock for each $1.00 invested. The total purchase price received by the Company was $400,000. The Series B Preferred is convertible into shares of common stock at the initial conversion ratio of two shares of common stock for each share of Series B Preferred converted (which was established based on an initial conversion price of $0.50 per share), and the Series B Warrants are exercisable at $0.50 per share until five years from the issuance of the Series B Warrants. The Series B Preferred and Series B 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 Series B Preferred or the exercise price of the Series B Warrant, such conversion and exercise prices shall be adjusted downward to equal the price of the new securities. The Series B 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 Series B 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 Series B Preferred holder a dividend equal to the amount of the dividend the Series B Preferred holder would receive if the Series B Preferred were converted just prior to the dividend declaration. Each share of Series B Preferred has the same voting rights as the number of shares of Common Stock into which it would be convertible on the record date. During the year of 2009, Series B Preferred Stock shareholders converted 150,000 shares of Series B Preferred Stock into 600,000 shares of common stock.

On July 30, 2008, to obtain funding for working capital, the Company entered into a series of subscription agreements with a total of two accredited investors for the sale of a total of 150,000 Series B Units. The total purchase price received by the Company was $150,000. The Series B Preferred is convertible into shares of common stock at the initial conversion ratio of two shares of common stock for each share of Series B Preferred converted (which was established based on an initial conversion price of $0.50 per share), and the Series B Warrants will exercisable at $0.50 per share until five years from the issuance of the Series B Warrants. The Series B Preferred and Series B 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 Series B Preferred or the exercise price of the Series B Warrant, such conversion and exercise prices shall be adjusted downward to equal the price of the new securities. The Series B 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 Series B 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 Series B Preferred a dividend equal to the amount of the dividend the Series B Preferred holder would receive if the Series B Preferred were converted just prior to the dividend declaration. Each share of Series B Preferred has the same voting rights as the number of shares of Common Stock into which it would be convertible on the record date.

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Notes to Consolidated Financial Statements—(Continued)

The Company allocated the proceeds of the Series A and B preferred stock according to the value of the convertible preferred stock and the warrants based on their relative fair values. Fair value of the warrants for Series A and Series B were determined using the Black-Scholes valuation model using risk-free interest rates of 3% and 3.37%, volatility rate of 65.0% and 57.9%, term of five years, and exercise price of $0.50.

In connection with the Series A and B rounds of financing, each investor received a warrant to purchase up to a number of shares of common stock for $1.00. Subsequently, the exercised price for those warrants were adjusted down to $0.25 per share. The following assumptions were used to calculate the fair value of the warrants using the Black-Scholes option pricing model.

	December 31, 2009
Expected life (years)	4.0
Expected volatility	67.27%
Risk-free interest rate	1.3%
Expected dividend yield	0.0%

During the year ended December 31, 2009, there were no Series A or B warrants exercised, and we had outstanding warrants to purchase an aggregate of 3,100,000 shares of common stock.

In August 2008, in accordance with the anti-dilution provisions of the securities, the conversion rates and exercise price were reduced to $0.25. Estimated adjusted fair value of the warrants was determined using the Black-Scholes valuation model using risk-free interest rate of 3%, volatility rate of 57.9%, term of five years, and exercise price of $0.25. For Series A and Series B, the beneficial conversion feature and warrants were adjusted to $553,320 and $193,321, and $308,307 and $110,307, respectively.

Warrant to Purchase Common Stock

In accordance with ASC Topic 815- 40-15, Derivatives and Hedging , with the effectivity of EITF 07-5, *Determining Whether and Instrument (or Embedded Feature) is indexed to an Entity's Own Stock*, the Company recognized as liability the 3,100,000 warrants that were issued with the Series A and B Preferred Stock in 2009 which resulted in a cumulative effect adjustment of $301,413. These common stock purchase warrants do not trade in an active securities market, and as such, we estimated the fair value of these warrants using the Black-Scholes option pricing model and all changes in the fair value of these warrants will be recognized currently in earnings until such time as the warrants are exercised or expire. For the year ended December 31, 2009, we recorded an increase in market value of $498,183. The fair value of the outstanding warrants to purchase common stock as of December 31, 2009 was $1,103,223.

On August 20, 2008, to obtain funding for working capital, the Company entered into a subscription agreement with an accredited investor (the "Series C Investor") to sell for three million dollars ($3,000,000) up to three million (3,000,000) shares of Series C Preferred Stock ("Series C Preferred") at a price of $1.00 per Series C Preferred share. The Series C Preferred will be convertible into shares of common stock at $0.25 per share. The Series C Preferred has an anti-dilution clause whereby, if the Company issues 250,000 shares or more of equity securities or securities convertible into equity at a price below the conversion price of the Series C Preferred, the conversion price of the Series C Preferred shall be adjusted downward to equal the price of the new securities. The Series C Preferred shall have priority over the Common 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 Series C Preferred a dividend in the amount of the dividend the Series C Preferred holder would receive if converted just prior to the dividend declaration. Each share of Series C Preferred shall have the same voting rights as the number of shares of Common Stock into which it would be convertible on the record date. 700,000 shares of Series C preferred stock were sold August 20, 2008, and 1,300,000 shares of Series C preferred stock were sold September 23, 2008. The beneficial conversion feature for the Series C preferred stock is $720,000. The beneficial conversion feature from the Series A, Series B and Series C preferred stock are recognized as deemed dividend totaling $1,581, 627.

On December 30, 2008, to obtain funding for both working capital and the eventual repayment of the outstanding obligation under the OID Senior Secured Convertible Note with a principal amount of $1,000,000 issued in May 2008, International Stem Cell Corporation (the "Company") entered into a Series D Preferred Stock Purchase Agreement (the "Series D Agreement") with accredited investors (the "Investors") to sell for up to five million dollars ($5,000,000) up to fifty (50) shares of Series D Preferred Stock ("Series D Preferred") at a price of $100,000 per Series D Preferred share. The sale of the Preferred closed on the following schedule: (1) 10 shares were sold on December 30, 2008; (2) subject to determination by the Investors that there has been no material adverse event with respect to the Company, 10 shares were sold on February 5, 2009; and (3) at the Investors' sole discretion 10 shares were sold on each of March 20, 2009, and June 30, 2009 and 3 shares on September 30, 2009. If the Investors decide not to purchase shares in any of the later three discretionary tranches, then their rights to purchase shares in future tranches shall terminate. As of December 31, 2008, the Company received $1 million from the Series D financing and issued 10 shares of Series D Preferred Stock.

During the year ended December 31, 2009, the Company raised a total of $3.7 million in the Series D Preferred Stock round and was recorded as a Preferred Stock, and Series D Preferred Stock shareholders converted 3.8 shares Series D Preferred Stock into 1,526,800 shares of common stock. The beneficial conversion feature from the Series D Preferred Stock is recognized as deemed dividend totaling $3,161,700.

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On December 29, 2008 the Company issued a total of 2,121,180 restricted shares of common stock to six executive officers and directors and one employee at $0.25 per share. The shares are subject to stock restriction provisions and vest upon the third anniversary of the date of grant, subject to accelerated vesting upon certain changes of control or terminations of service. The Company will reacquire any unvested shares for no cost upon the termination of the recipient's service to the Company. These shares were issued to the individuals in recognition of the fact that they had previously agreed to reduce (and in some cases completely eliminate) the cash compensation that would have otherwise been payable to them in 2008.

On June 30, 2009, to obtain funding for working capital and advancement of its science, we entered into a Preferred Stock Purchase Agreement (the "Agreement") with a biotechnology-focused fund (the "Investor") to sell for up to five million dollars ($5,000,000) up to five hundred (500) shares of a newly authorized, non-convertible, Series E Preferred Stock ("Series E Preferred") at a price of $10,000 per Series E Preferred share. At our option, we determined the time and amount of Series E Preferred to be purchased by the Investor, and may sell such shares in multiple tranches. In addition, we paid to the Investor a non-refundable fee of $250,000, payable currently in shares of Company's common stock, and issued to the Investor, at the time shares of Series E Preferred are sold, warrants to purchase up to a total of 6,750,000 shares of Company common stock, with exercise prices fixed equal to the closing price of the Company's common stock on the day prior to the day the Company elects to sell shares of Series E Preferred.

The shares of Series E Preferred are being offered and sold to the Investor in a private placement transaction made in reliance upon an exemption from registration pursuant to Section 4(2) under the Securities Act of 1933 and Rule 506 promulgated thereunder. The Investor is an accredited investor as defined in Rule 501 of Regulation D promulgated under the Securities Act of 1933.

To create the Series E Preferred sold to the Investor under the Agreement, on June 30, 2009, the Company amended its Certificate of Incorporation by filing a Certificate of Designation of Preferences, Rights and Limitations of the Series E Preferred. The Series E Preferred has priority over the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Common Stock on the proceeds from any sale or liquidation of the Company in an amount equal to the purchase price of the Series E Preferred, plus any accrued but unpaid dividends. From the date of issuance of the Series E Preferred, dividends at the rate per annum of ten percent (10%) of the Purchase Price per share shall accrue on such shares of Series E Preferred. Following the first anniversary of the issuance date, the Company shall have the rights at its option to redeem the Series E Preferred at an amount equal to the purchase price of the Series E Preferred, plus any accrued but unpaid dividends and plus a redemption premium that declines from 26% (for redemptions between the first and second anniversary of issuance) to zero (for redemptions after the fourth anniversary of issuance).

During the year ended December 31, 2009, the Company drew $2,000,000 of the private equity financing and issued 200 shares of the Series E Preferred Stock, as well as issued 4.1 million warrants which were immediately exercised to purchases 4.1 million shares of the Company's common stock under the S-1 filed in July 2009. The financing will allow the Company to move forward with the construction of its new cGMP cell culture facility, continued therapeutic research, product development and marketing requirements to increase product revenues and for general corporate purposes.

Perpetual Preferred Stock

As part of the Series E financing agreement, the Company recorded a Perpetual Preferred Stock equal to the amount of financing received during the year, plus accrued dividends, and Note Receivable equal to 135% of financing received, which represents the amount of warrant coverage per the agreement, plus accrued interest. In accordance with Accounting Standards Update 480-10 (FAS Statement 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity), we classified the Note Receivable as contra Equity ("Note subscription on Perpetual Preferred Stock") and the Perpetual Preferred Stock as a liability ("Long Term Perpetual Preferred Stock"). The Note Receivable accrues interest at a rate of 2% per year and the Perpetual Preferred Stock accrues a 10% dividend per year. The Company allocated the proceeds of the Series E Preferred Stock according to the value of the preferred stock and the fair value of the warrants. Estimated adjusted fair value of the warrants was determined using the Black-Scholes valuation model using risk-free interest rate ranging from 2.03% to 2.36%, volatility rate ranging from 65.26% to 66.93%, term of five years, and exercise price ranging from $0.56 to $0.74. Value allocated to the warrants amounted to $869,632 and was recognized as deemed dividend.

8. Income Taxes

The Company accounts for income taxes in accordance with the provisions of ASC Topic 740, Income Taxes, which requires the Company to provide a net deferred tax asset/liability equal to the expected future tax benefit/expense of temporary reporting differences between book and tax accounting methods and any available operating loss or tax credit carryforwards. The Company has available at December 31, 2009, net operating loss carryforwards of approximately $25,380,000, which may be applied against future taxable income and will expire in various years through 2025. At December 31, 2008, the company had operating loss carryforwards of approximately $15,274,000. The increase in carryforwards for the year ended December 31, 2009 is approximately $10,106,000.

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The amount of and ultimate realization of the benefits from the operating loss carryforwards for income tax purposes is dependent, in part, upon the tax laws in effect, the future earnings of the Company, and other future events, the effects of which cannot be determined at this time. Because of the uncertainty surrounding the realization of the loss carryforwards, the Company has established a valuation allowance equal to the tax effect of the loss carryforwards, R&D credits, and accruals; therefore, no net deferred tax asset has been recognized. A reconciliation of the statutory Federal income tax rate and the effective income tax rate for the years ended December 31, 2009 and 2008 follows:

	December 31, 2009	December 31, 2008
Statutory federal income tax rate	(35)%	(35)%
State income taxes, net of federal taxes	(6)%	(6)%
Valuation allowance	41%	41%
Effective income tax rate	0%	0%

The Company files income tax returns in the U.S. federal jurisdiction, and various states. With few exceptions, the Company is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years before 2005.

The Company may be subject to IRC code section 382 which could limit the amount of the net operating loss and tax credit carryovers that can be used in future years.

Significant components of deferred tax assets and liabilities are as follows:

	December 31, 2009	December 31, 2008
Deferred tax assets(liabilities)		
Net operating loss carryforwards	$ 10,106,000	$ 4,531,000
Accrued expenses	632,000	231,000
Research and Development tax credit (Fed and St.)	184,000	287,000
Deferred tax assets	10,922,000	5,049,000
Valuation allowance	(10,922,000)	(5,049,000)
Net deferred tax assets	$ —	$ —

The components of the provisions for income taxes were as follows:

	December 31, 2009	December 31, 2008
Current	$ —	$ —
Deferred	—	—
Total	$ —	$ —

9. Stock Options and Warrants

The Company has adopted the 2006 Equity Participation Plan (the "Plan"). The options granted under the Plan may be either qualified or non-qualified options. Up to 15,000,000 options may be granted to employees, directors and consultants under the Plan. Options may be granted with different vesting terms and expire no later than 10 years from the date of grant. For the year ended December 31, 2009, the Company had 8,102,037 options outstanding with a weighted average exercise

price of $0.76 granted under the Plan. Stockholders approved the Plan effective December 1, 2006.

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Stock Options

Transactions involving stock options issued to employees, directors and consultants under the Plan are summarized below. Options issued under the plan have a maximum life of 10 years. The following table summarizes the changes in options outstanding and the related exercise prices for the shares of the Company's common stock issued under the Plan as of December 31, 2009:

	Options Outstanding			Options Exercisable	
Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighed Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$1.00	2,245,000	6.9	$ 1.00	1,974,300	$ 1.00
$2.76	50,000	7.2	$ 2.76	33,000	$ 2.76
$3.20	170,000	7.4	$ 3.20	105,400	$ 3.20
$1.45	300,000	7.5	$ 1.45	174,000	$ 1.45
$1.15	30,000	7.8	$ 1.15	15,000	$ 1.15
$1.00	170,000	7.9	$ 1.00	81,600	$ 1.00
$0.45	1,784,600	8.3	$ 0.45	713,000	$ 0.45
$0.22	615,000	8.7	$ 0.22	188,100	$ 0.22
$0.49	680,400	9.3	$ 0.49	109,200	$ 0.49
$0.86	5,000	9.6	$ 0.86	400	$ 0.86
$0.70	428,571	9.8	$ 0.70	5,714	$ 0.70
$0.59	1,622,966	10	$ 0.59	0	$ 0.59

	Number of Shares	Weighted Average Price Per Share
Outstanding at December 31, 2007	3,807,500	$ 1.17
Granted	2,500,000	$ 0.42
Exercised	—	—
Canceled or expired	(140,000)	$ 0.61
Outstanding at December 31, 2008	6,167,500	$ 0.85
Granted	2,776,537	$ 0.58
Exercised	(16,400)	$ 0.43
Canceled or expired	(825,600)	$ 0.46
Outstanding at December 31, 2009	8,102,037	$ 0.76

The weighted-average fair value of stock options vested during the year ended December 31, 2008 and 2007 and the weighted-average significant assumptions used to determine those fair values, using a Black-Scholes option pricing model are as follows:

	2009	2008
Significant assumptions (weighted-average):		
Risk-free interest rate at grant date	1.62%	2.26%
Expected stock price volatility	68%	63%
Expected dividend payout	0%	0%

Expected option life-years based on management's estimate	3.71 yrs	3.75 yrs

In accordance with the provisions of ASC Topic 718, Compensation—Stock Compensation, which requires the Company to establish assumptions and estimates of the weighted-average fair value of stock options granted, as well as using a valuation model to calculate the fair value of stock-based awards. The Company uses the Black-Scholes option-pricing model to determine the fair-value of stock-based awards. All options are amortized over the requisite service periods of the awards, which are generally the vesting periods. For the year ended December 31, 2009, the company recognized $409,625 of Stock-based compensation, of which approximately $119,365 related to R&D expense, $106,871 related to Sales and Marketing expense and $183,389 related to General and administrative expense. During 2008, the Company recognized $734,867 as stock-based compensation expenses, of which $393,078 related to R&D expense, $12,729 related to Sales and marketing expense and $329,060 related to General and Administrative expense. Unrecognized compensation cost related to stock options as of December 31, 2009 was $1,011,003 and the weighted average life of these outstanding stock options is approximately 8.44 years.

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

Notes to Consolidated Financial Statements—(Continued)

Warrants

As of December 31, 2006 Brookstreet Securities Corporation ("Brookstreet") had earned 1,976,190 warrants as partial compensation for its services as placement agent for the raising of equity capital. An additional 274,000 warrants were earned by Brookstreet in the first quarter of 2007, for a total of 2,250,190 warrants related to the Company's private placement. In addition, 426,767 warrants were granted to a number of individuals as compensation for services rendered to the Company. Each Warrant entitles the holder thereof to purchase the number of shares of common stock that could be purchased by the dollar amount of the Warrant being exercised at $1.00 in the case of the Brookstreet warrants and $0.80 in the case of the individuals' warrants. The Company recognized the value attributable to the individuals' warrants in the amount of $222,077 and applied it to general and administrative expense. The Company recognized the value attributable to the Brookstreet warrants in the amount of $1,230,649. The Company recognized the Brookstreet warrants as a component of additional paid-in capital with a corresponding reduction in additional paid-in capital to reflect this as a non-cash cost of the offering. Proceeds from the private equity placement totaled $9,881,950 and are offset by cash offering costs of $1,547,433 as well as the non-cash offering cost of $1,230,649 related to the fair value of the Brookstreet warrants. The Company valued the Brookstreet warrants and the warrants issued to the individuals sing the Black-Scholes pricing model and the following assumptions: contractual terms of 5 years and 3 years, an average risk free interest rate of 4.70% and 5.13%, a dividend yield of 0% and 0%, and volatility of 71% and 63%, respectively.

Additionally, in 2006, the Company issued warrants to purchase 1,202,856 shares of common stock in connection with certain financing transactions. See Note 6 for further details.

During the year ended December 31, 2009, the Company issued a total of 3,610,206 shares of common stock which related to warrants originally issued to Brookstreet and to Gemini Master Fund, Ltd. Brookstreet converted a total of 612,267 warrants into 584,675 shares of common stock at an average cashless conversion price of $0.95 per share. Gemini Master Fund, Ltd., converted 4,000,000 warrants into 3,025,531 share of common stock at an average cashless conversion price of $0.78 per share. Series A warrants were converted into 800,000 shares of common stock at $0.25 per share.

10. Commitments and Contingencies

Leases

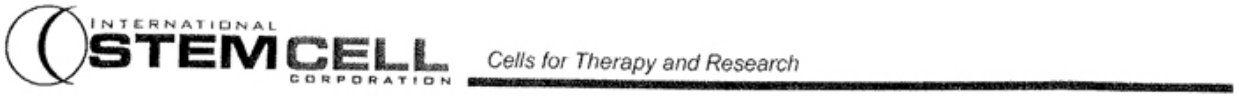
The Company leases office space under a noncancelable operating leases. Future minimum lease payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of December 31, 2009, are as follows:

	Amount
2010	$163,133
2011	86,478
2012	—
2013	—
2014	—
Total	$249,611

11. Subsequent Events

In an effort to raise additional capital, the Company filed a preliminary S-1 on January 27, 2010.

Exhibit 10.18



November 5, 2009

To: Brian Lundstrom

From: International Stem Cell Corporation

Dear Brian:

The following sets for the terms of your proposed employment with International Stem Cell Corporation ("ISCO"). ISCO hereby offers you employment with ISCO on the terms and conditions set forth below, such employment to commence November 5, 2009.

1. You will be President and Assistant Secretary of ISCO and report directly to the CEO of ISCO. Your duties and responsibilities will include management of ISCO's day to day operations, including activities related to the company's public listing and external presence; in particular, definition and monetization of ISCO's development programs through outlicensing, R&D collaborations, and other financial structures; and such other functions as the Board or the CEO may delegate to you. You may be asked to be an officer or otherwise involved in the capital fundraising and other activities of subsidiaries of ISCO.
2. You will receive an annual base salary of $250,000, payable semi-monthly. Your status will be salary exempt. You will be entitled to 15 days paid vacation each year, accruing on a monthly basis. You will be eligible for coverage under such group health plan and other benefits as the Company provides to comparable employees.
3. Bonuses, if any, will be at the discretion of the Board; provided however, that you shall be entitled to an automatic bonus of up to a maximum of $100,000 in any one calendar year calculated as 1% of any new capital (whether from investment, licensing, corporate ventures, or other sources, and no matter what form such capital takes, e.g. upfront fee, milestone, research funding, royalty, equity etc.) that you are primarily responsible for bringing to the Company. If the 1% formula would generate more than $100,000 in any year, it can be carried over to future years for up to two additional years so long as you remain employed by the Company.
4. In the event of the termination of your services by the company other than "for Cause", you will be entitled to severance pay on a monthly basis determined as follows: 3 months of severance pay if terminated during the first 6 months commencing November 1, 2009; then increasing to 6 months for the next 6 months and 12 months thereafter. In all cases, severance pay will terminate as soon as you obtain a replacement job. Cobra payments would be included in severance pay.
5. Upon approval by the Board, you will be granted employee stock options to purchase three million (3,000,000) shares of Common Stock on the following basis:
    a. Exercise Price: fair market value as of close of business on November 5 2009.

b. On May 1, 2010 180,000 shares will vest, representing 2% per month on 1,500,000 shares (1/2 of the total grant).

c. From June 1, 2010 and monthly thereafter until October 31, 2010 an additional 30,000 shares per month (2% of 1,500,000) will vest.

d. On November 1, 2010, an additional 360,000 will vest, representing 12 months vesting on the remaining 1,500,000 shares of the grant.

e. Thereafter all previously unvested shares will continue to vest at the rate of 60,000 shares (2% of total grant) per month until fully vested.

f. All shares shall otherwise contain the standard provisions of the Company's Stock Option Plan, but that portion which will not qualify for ISO treatment may be granted outside the Plan and registered for sale separately on SEC form S-8 or through some other applicable registration method.

6. Employment with ISCO is at the mutual consent of the employee and the company. Accordingly, while the company has every hope that employment relationships will be mutually beneficial and rewarding, employees and the company retain the right to terminate the employment relationship at will, at any time, with or without cause. Please note that no individual has the authority to make any contrary agreement or representation. Accordingly, this constitutes a final and fully binding integrated agreement with respect to the at-will nature of the employment relationship.

7. You agree to abide by the Company's policies and procedures, including those set forth in a Company Employee Handbook when such document is drafted. You will be required to sign the signature page of this Employee Handbook when it is completed.

8. For a period of one year after your termination of employment for any reason, you agree not to, directly or indirectly, hire, attempt to hire, induce or entice the hire of or interview for hire any employee of ISCO or any of its subsidiaries, or any former employee who had been an employee at any time during the one year period prior to your termination.

9. You further agree that you will upon termination of employment, return to ISCO all books, records, computer files, manuals, customer lists and other written, typed, printed, or electronic materials, whether furnished by ISCO or any subsidiary or prepared by you, which contain any information relating to ISCO or any subsidiary, and you further agree that you will neither make nor retain copies of such materials after termination of employment.

10. If you voluntary terminate your employment under this Agreement, you will not, for a period of one year after you are no longer employed by ISCO or any subsidiary, solicit customers of ISCO or any subsidiary directly or indirectly, either as a proprietor, stockholder, partner, officer, employee, or otherwise of any other entity engaged in the stem cell business in the United States, producing and/or selling same or substantially similar products and services as ISCO or any subsidiary produces and/or sells at such time your employment with ISCO and/or any subsidiary may terminate.

11. In the event of any lawsuit or charge filed with an administrative agency, or other form of litigation brought against or involving you as a result of alleged activity, negligence, or any other conduct by you in connection with your duties and responsibilities on behalf of ISCO or any subsidiary, ISCO shall provide and pay for legal defense on your behalf, as well as indemnify you against any judgment or other liability that may result from such proceedings unless such activity or conduct represented willful misconduct on your part.

12. You will be required to sign an Employee Proprietary Information Agreement as well as the necessary tax and benefit enrollment forms before starting full time employment. You will also be required to provide proof of your identity and authorization to work in the United States as required by Federal immigration laws.

13. We look forward to you joining our effort and hope the opportunity will be mutually rewarding. To confirm that you agree to the terms stated in this letter, please sign, date and return the enclosed copy of this letter.

Sincerely,

International Stem Cell Corporation

/s/ Kenneth C. Aldrich
Kenneth C. Aldrich CEO

This will acknowledge my acceptance of this offer of employment.

/s/ Brian Lundstrom
Brian Lundstrom

Date: November 5, 2009

Exhibit 10.19

INTERNATIONAL STEM CELL CORPORATION
NON-QUALIFIED STOCK OPTION AGREEMENT
(Time-Based Vesting)

THIS NON-QUALIFIED STOCK OPTION AGREEMENT (this "Agreement") dated as of, _____("Grant Date"), is between International Stem Cell Corporation, a Delaware Corporation (the "Company"), and _____(the "Recipient"). The stock option granted by this Agreement has **not** been granted under the International Stem Cell Corporation 2006 Equity Participation Plan (the "Plan"). However, for administrative convenience and simplicity, the parties refer to the Plan for certain defined terms and standard provisions. Capitalized terms used in this Agreement without definition shall have the meaning ascribed to such terms in the Plan.

1. Grant of Stock Option, Option Price and Term.

(a) The Company grants to the Recipient a Non-Qualified Stock Option to purchase _____ shares of Common Stock of the Company ("Option Shares") at a price of $0._____ per share ("Option Price") subject to the provisions of the Plan and the terms and conditions herein.

(b) The term of this Stock Option shall be a period of ten years from the Grant Date (the "Option Period"). During the Option Period, the Stock Option shall be vested and exercisable as of the dates set forth below according to the percentage set forth opposite such date:

Date	Vesting Schedule

Notwithstanding the foregoing, in the event the Recipient ceases to provide services to the Corporation or an Affiliate, whether as an employee, Director or Consultant for any reason whatsoever (i) any Stock Option held by the Recipient may thereafter be exercised by the Recipient, to the extent it was exercisable at the time of such cessation, for a period of _____ years from the date of such cessation or until the expiration of the stated term of the option, whichever period is shorter, and (ii) each Stock Option that remains unexercisable as of the date of cessation shall be terminated at the time of such cessation.

(c) The Stock Option granted hereunder is designated as a Non-Qualified Stock Option which is not transferable by the Recipient except by will or in accordance with the laws of descent and distribution. The Stock Option granted hereunder is not intended to constitute an "incentive stock option" as that term is used in Section 422 of the Code.

(d) The Company shall not be required to issue any fractional shares of Common Stock. Any fractional shares of Common Stock shall be paid in cash.

2. Exercise.

The Stock Option shall be exercisable during the Recipient's lifetime only by the Recipient (or his or her guardian or legal representative (each, a "Representative")), and after the Recipient's death only by a Representative. The Stock Option may only be exercised by the delivery to the Company of a properly completed written notice, which notice shall specify the number of Option Shares to be purchased and the aggregate Option Price for such shares, together with payment in full of such aggregate Option Price. Payment shall only be made as specified in the Plan. If any part of the payment of the Option Price is made in shares of Common Stock, such shares shall be valued by using their Fair Market Value as of the date of exercise of the Stock Option.

The Stock Option may not be exercised unless there has been compliance with the Plan and all of the preceding provisions of this Section 2, and, for all purposes of this Agreement, the date of the exercise of the Stock Option shall be the date upon which there is compliance with all such requirements.

3. Payment of Withholding Taxes.

If the Company is obligated to withhold an amount on account of any tax imposed as a result of the exercise of the Stock Option, the Recipient shall be required to pay such amount to the Company, as provided in the Plan. The Recipient acknowledges and agrees that he or she is responsible for the tax consequences associated with the grant of the Stock Option and its exercise.

4. Changes in Company's Capital Structure.

The existence of this Stock Option will not affect in any way the right or authority of the Company or its stockholders to make or authorize (a) any or all adjustments, recapitalizations, reorganizations or other changes in the Company's capital structure or its business; (b) any merger or consolidation of the Company's capital structure or its business; (c) any merger or consolidation of the Company; (d) any issue of bonds, debentures, preferred or prior preference stock ahead of or affecting the Common Stock or the rights thereof; (e) the dissolution or liquidation of the Company; (f) any sale or transfer of all or any part of its assets or business; or (g) any other corporate act or proceeding, whether of a similar character or otherwise.

In the event of a Change in Control or other corporate restructuring provided for in the Plan, the Recipient shall have such rights, and the Board shall or may, as the case may be, take such actions, as are provided for in the Plan.

5. Plan.

The Stock Option is **not** granted pursuant to the Plan. However, except as set forth in this Agreement, the Stock Option and this Agreement are governed by the terms of the Plan and subject to all of the terms and provisions thereof, whether such terms and provisions are incorporated in this Agreement by reference or are expressly cited. Company has provided Recipient with a copy of the Plan.

6. Employment, Directorship or Other Service.

No provision of this Agreement or of the Stock Option granted hereunder shall give the Recipient any right to continued employment, directorship or other service with respect to the Company or any Affiliates, create any inference as to the length of employment, directorship or other service of the Recipient, affect the right of the Company or Affiliates to terminate the employment, directorship or other service of the Recipient, with or without Cause, or give the Recipient any right to participate in any employee welfare or benefit plan or other program (other than the Plan) of the Company or any of the Affiliates.

7. Governing Law.

This Agreement and the Stock Option granted hereunder shall be governed by, and construed and enforced in accordance with, the laws of the State of California (other than its laws respecting choice of law).

8. Waiver; Cumulative Rights.

The failure or delay of either party to require performance by the other party of any provision hereof shall not affect its right to require performance of such provision unless and until such performance has been waived in writing. Each and every right hereunder is cumulative and may be exercised in part or in whole from time to time.

9. Notices.

Any notices, consents, or other communication to be sent or given hereunder by any of the parties shall in every case be in writing and shall be deemed properly served if (a) delivered personally, (b) sent by registered or certified mail, in all such cases with first class postage prepaid, return receipt requested, or (c) delivered to a nationally recognized overnight courier service, to the parties at the addresses set forth below:

If to the Company: International Stem Cell Corporation
2595 Jason Court
Oceanside, CA 92056
Attention: Stock Plan Administrator
Facsimile: (760) 940-6387

If to the Recipient:

or such other address or to the attention of such other person as the recipient party shall have specified by prior written notice to the sending party. Date of service of such notice shall be (w) the date such notice is personally delivered, (x) three (3) days after the date of mailing if sent by certified or registered mail, or (y) one (1) day after date of delivery to the overnight courier if sent by overnight courier.

10. Conditional Grant.

This Stock Option is granted upon the condition that the Option Shares shall be forfeited unless each and any person who is a spouse of the Recipient at any time on or after the Grant Date (including any person who becomes a spouse after the Grant Date) executes a Consent of Spouse form provided by the Committee, unless the Committee shall waive such condition.

11. Entire Agreement.

This Agreement and the Plan embody the complete agreement and understanding among the parties, and supersede and preempt any prior understandings, agreements or representations by or among the parties, written or oral, with respect to the subject matter hereof.

12. Counterparts.

This Agreement may be executed in separate counterparts, each of which is deemed to be an original and all of which taken together constitute one and the same instrument.

13. Successors and Assigns.

This Agreement is intended to bind and inure to the benefit of, and be enforceable by, the Recipient and the Company and their respective successors and assigns (including subsequent holders of this Stock Option).

14. No Strict Construction.

The language used in this Agreement will be deemed to be the language chosen by the parties hereto to express their mutual intent, and no rule of strict construction will be applied against any party hereto.

15. Remedies.

Each of the parties to this Agreement will be entitled to enforce its rights under this Agreement specifically, to recover damages by reason of any breach of any provision of this Agreement and to exercise all other rights existing in its favor. The Recipient agrees and acknowledges that money damages will not be an adequate remedy for any breach of the provisions of this Agreement and that the Company shall be entitled to specific performance and injunctive relief in order to enforce, or prevent any violations of, the provisions of this Agreement.

16. Amendments and Waivers.

The Board may amend or waive any of the terms of the Award heretofore granted, prospectively or retroactively, but no such amendment shall adversely affect the rights of the Recipient without the Recipient's consent.

17. Headings.

The captions set forth in this Agreement are for convenience only and shall not be considered as part of this Agreement or as in any way limiting the terms and provisions hereof.

[Remainder of page intentionally left blank.
Signature page follows.]

IN WITNESS WHEREOF, the Company has caused this Agreement to be duly executed by an officer thereunto duly authorized, and the Recipient has hereunto set his hand, all as of the day and year first above written.

INTERNATIONAL STEM CELL CORPORATION

By: _____

Name: Ray Wood
Title: Vice President, Finance, Principal Financial Officer

Recipient:

_____

Name:

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders
International Stem Cell Corporation and Subsidiaries
Oceanside, California

We hereby consent to the incorporation by reference in the Prospectus constituting a part of the Registration Statements on Form SB-2/A (No. 333-142048) and on Form S-8 (Nos. 333-164539 333-150920, 333-159424 and 333-159421) of our report dated March 22, 2010 of International Stem Cell Corporation and subsidiaries (the Company), a development stage company, relating to the consolidated balance sheets as of December 31, 2009 and 2008, and the related consolidated statements of operations, members' deficit and stockholders' equity and cash flows for the years then ended and for the period from inception (August 17, 2001) to December 31, 2009, which report is included in this Annual Report on Form 10-K. Our report contains an explanatory paragraph regarding the Company's ability to continue as a going concern.

/s/ Vasquez & Company LLP

Los Angeles, California
March 22, 2010

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Andrey Semechkin, certify that:

1. I have reviewed this annual report on Form 10-K 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 period 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 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: March 23, 2010

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

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Ray Wood, certify that:

1. I have reviewed this annual report on Form 10-K 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 period 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 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: March 23, 2010

/s/ Ray Wood
Ray Wood
Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 32.1

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 Annual Report of International Stem Cell Corporation (the "Company") on Form 10-K for the year ended December 31, 2009 as filed with the Securities and Exchange Commission on March 23, 2010 (the "Report"), I, Andrey Semechkin, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: March 23, 2010

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

Exhibit 32.2

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 Annual Report of International Stem Cell Corporation (the "Company") on Form 10-K for the year ended December 31, 2009 as filed with the Securities and Exchange Commission on March 23 2010 (the "Report"), I, Ray Wood, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: March 23, 2010

/s/ Ray Wood
Ray Wood
Chief Financial Officer
(Principal Financial and Accounting Officer)