Table of Contents

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

FORM 10-Q

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

For the quarterly period ended June 30, 2010

Commission File Number: 0-51891

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

Delaware (State or other jurisdiction of incorporation or organization)	**20-4494098** (I.R.S. Employer Identification No.)

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

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

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

Indicate by check mark whether the registrant 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 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 Exchange Act). YES ☐ NO ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

As of July 28, 2010 the Registrant had 71,714,792 shares of Common Stock outstanding.

Table of Contents

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

Table of Contents

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

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

	June 30, 2010 (Unaudited)	December 31, 2009
Assets		
Cash and cash equivalents	$ 7,631,449	$ 726,829
Accounts receivable	307,138	130,988
Inventory	702,474	631,309
Prepaid assets	278,630	245,976
Total current assets	8,919,691	1,735,102
Property and equipment, net	1,307,292	1,209,509
Patent licenses, net	863,129	737,507
Deposits and other assets	22,994	22,383
Total assets	$ 11,113,106	$ 3,704,501
Liabilities and Stockholders’ Equity (deficit)		
Accounts payable	$ 751,205	$ 369,050
Accrued expenses	492,161	631,762
Advance	250,000	250,000
Related party payables	—	469,673
Warrants to purchase common stock	—	1,103,223
Total current liabilities	1,493,366	2,823,708
Long-Term Perpetual Preferred Stock	—	2,033,288
Commitments and contingencies		
Stockholders’ Equity (deficit)		
Common Stock, $.001 par value, 200,000,000 shares authorized, 71,712,792 shares and 56,034,835 shares issued at June 30, 2010 and December 31, 2009, respectively		

	71,712	56,035
Preferred Stock, $.001 par value, 20,000,000 shares authorized, 2,800,043 shares and 3,000,043 shares issued at June 30, 2010 and December 31, 2009, respectively	2,800	3,000
Note receivable on Perpetual Preferred Stock	—	(2,708,988)
Additional paid-in capital	51,857,298	38,067,152
Deficit accumulated during the development stage	(42,312,070)	(36,569,694)
Total stockholders’ equity (deficit)	9,619,740	(1,152,495)
Total liabilities and stockholders’ equity (deficit)	$ 11,113,106	$ 3,704,501

See accompanying notes to the unaudited condensed consolidated financial statements.

[Table of Contents](#)

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

(Unaudited)

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009	Inception (August 2001) through June 30, 2010
Revenues					
Product sales	$ 441,118	$ 388,810	$ 713,744	$ 572,109	$ 2,244,429
Royalties and license	—	—	—	—	135,000
Total revenue	$ 441,118	$ 388,810	$ 713,744	$ 572,109	$ 2,379,429
Development expenses					
Cost of sales	214,330	260,179	360,706	550,341	1,351,537
Research and development	754,000	524,449	1,338,069	1,072,050	11,824,335
Marketing	291,576	128,021	424,994	263,520	1,963,986
General and administrative	2,033,615	1,574,191	3,408,821	2,377,379	19,660,929
Total development expenses	3,293,521	2,486,840	5,532,590	4,263,290	34,800,787
Loss from development activities	(2,852,403)	(2,098,030)	(4,818,846)	(3,691,181)	(32,421,358)
Other income (expense)					
Settlement with related company	—	—	—	—	(92,613)
Miscellaneous expense	(256)	—	(20,649)	—	(12,006)
Dividend income	350	52	25,999	93	91,239
Interest expense	(6,805)	(74,106)	(14,079)	(81,071)	(2,225,074)
Sublease income	2,125	2,100	3,525	4,200	49,754
Change in market value of warrants	5,276,282	(2,055,777)	319,741	(2,055,777)	(479,857)
Total other income (expense)	5,271,696	(2,127,731)	314,537	(2,132,555)	(2,668,557)
Income (Loss) before income taxes	2,419,293	(4,225,761)	(4,504,309)	(5,823,736)	(35,089,915)
Provision for income taxes	—	—	—	—	(6,800)

Net income (loss)	$ 2,419,293	$ (4,225,761)	$ (4,504,309)	$ (5,823,736)	$(35,096,715)
Dividends on preferred stock	$ —	$ —	$ (1,238,067)	$ (1,480,000)	$ (7,215,355)
Net income (loss) attributable to common shareholders	$ 2,419,293	$ (4,225,761)	$ (5,742,376)	$ (7,303,736)	$(42,312,070)
Basic earnings per common share	$ 0.04	$ (0.10)	$ (0.09)	$ (0.18)	
Diluted earnings per common share	$ 0.02	$ —	$ —	$ —	
Share used in per share calculations:					
Weighted average shares outstanding	68,676,504	41,263,099	64,789,250	41,684,918	
Weighted average shares outstanding on a Fully Diluted Basis	114,797,830	—	—	—	

See accompanying notes to the unaudited condensed consolidated financial statements.

Table of Contents

International Stem Cell Corporation and Subsidiaries
(A Development Stage Company)
Condensed Consolidated Statements of Members' Deficit and Stockholders' Equity

(Unaudited)

	Common Stock		Preferred Stock			Additional		Total Stockholders'	Members'
	Shares	Amount	Shares	Amount	Note Subscription	Paid-in Capital	Accumulated Deficit	Equity (Deficit)	Equity (Deficit)
Balance at August 17, 2001	—	$ —	—	$ —	$ —	$ —	$ —	$ —	$ —
Members contribution									100,000
Net loss for the period from inception									(140,996)
Balance at December 31, 2001									(40,996)
Members 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, 2005									(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)	

	Common Stock		Preferred Stock						
	Shares	Amount	Shares	Amount	Note Subscription	Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity (deficit)	Members' Equity Deficit
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)

	Common Stock Shares	Common Stock Amount	Preferred Stock Shares	Preferred Stock Amount	Note Subscription	Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity (deficit)	Members' Equity Deficit
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)	
Issuance of common stock									
For services	540,000	540				831,660		832,200	
From conversion of preferred stock	800,000	800	(200,000)	(200)		(600)			
From conversion of debt									
From exercise of warrants	3,721,571	3,722			(3,254,513)	4,287,569		1,036,778	
From cashless exercise of warrants	1,486,579	1,486				(1,486)			
For cash	9,129,807	9,129				8,826,420		8,835,549	
Issuance of preferred stock									
Stock-based compensation						491,435		491,435	
Stock subscription							—		
Swap out of NR and perpetual preferred stock					5,989,123	(1,449,823)		4,539,300	
Deemed dividend on preferred stock							(1,036,778)	(1,036,778)	
Accrued dividend and paid dividend							(201,289)	(201,289)	
Change in warrant classification						804,971		804,971	
Net loss for the six months ended June 30, 2010					(25,622)		(4,504,309)	(4,529,931)	
Balance, June 30, 2010	71,712,792	$71,712	2,800,043	$ 2,800	$ —	$51,857,298	$(42,312,070)	$ 9,619,740	

See accompanying notes to the unaudited condensed consolidated financial statements.

Table of Contents

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

(Unaudited)

	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009	Inception (August 2001) through June 30, 2010
Net loss	$ (4,504,309)	$(5,823,736)	$(35,096,715)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	134,074	82,733	792,494
Interest on perpetual preferred stock notes receivable	(25,622)		(34,610)
Accretion of discount on Notes Payable	—	—	103,304
Accretion of discount on bridge loans	—	—	637,828
Non-cash warrants for services	—	281,416	222,077
Non-cash compensation expense	512,924	333,203	3,314,760
Common stock issued for services	832,200	146,000	3,720,781
Amortization of Discount on Convertible Notes	—	67,227	1,080,962
Change in market value of warrants	(319,741)	2,055,777	479,857
Changes in operating assets and liabilities			
(Increase) decrease in accounts receivable	(176,150)	(30,892)	(307,138)
(Increase) decrease in inventory	(71,165)	62,472	(702,474)
(Increase) decrease in prepaid assets	(32,654)	(115,362)	(278,630)
(Increase) decrease in deposits and other assets	(611)	(1,125)	(22,994)
Increase (decrease) in accounts payable	382,155	95,990	751,205
Increase (decrease) in accrued liabilities	(139,601)	335,284	633,361
Increase (decrease) in related party payables	(469,673)	13,353	(164,504)
Net cash used in operating activities	(3,878,173)	(2,497,660)	(24,870,436)
Investing activities			

Purchases of property and equipment	(197,142)	(255,553)	(1,821,727)
Payments for patent licenses and trademarks	(160,337)	(87,480)	(1,141,187)
Net cash used in investing activities	(357,479)	(343,033)	(2,962,914)
Financing activities			
Members' contributions	—	—	2,685,000
Proceeds from issuance of common stock	8,835,549	612,115	22,696,844
Proceeds from issuance of preferred stock	2,410,750	3,000,000	11,648,635
Proceeds from convertible debt and loan payable	—	—	1,360,000
Issuance of convertible promissory notes	—	—	2,099,552
Payment of promissory notes	—	—	(2,202,856)
Payment of loan payable	—	—	(625,000)
Payment of preferred stock dividend	(106,027)	—	(437,068)
Payment of offering costs	—	—	(1,760,308)
Net cash provided by financing activities	11,140,272	3,612,115	35,464,799
Net (decrease) increase in cash	6,904,620	771,422	7,631,449
Cash and cash equivalents, beginning of period	726,829	381,822	—
Cash and cash equivalents, end of period	$ 7,631,449	$ 1,153,244	$ 7,631,449
Supplemental disclosures of cash flow information:			
Cash paid for interest	$ 30,115	$ 277	$ 371,469

	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009	Inception (August 2001 through June 30, 2010
Cash paid for income taxes	$ 800	$ 3,265	$ 13,613
Non-cash financing activities:			
Warrants issued with promissory notes	$ —	$ —	$ 637,828
Warrants issued for placements agent services	$ —	$ —	$ 1,230,649
Deemed dividend on preferred stock	$ 1,036,778	$ 1,480,000	$ 6,683,025
Payment of dividend through reduction of liability	$ 201,289	$ —	$ 201,289
Accrual of equity placement costs	$ —	$ 250,000	$ 250,000
Accrual of dividend	$ 95,262	$ —	$ 128,550
Conversion of debt to common stock	$ —	$ 500,000	$ 500,000
Discounts on convertible debt from beneficial conversion feature	$ —	$ —	$ 641,331
Discounts on convertible debt from warrants	$ —	$ —	$ 269,632
Conversion of preferred stock	$ 800	$ 600	$ 1,400
Non-cash sale of preferred stock	$ —	$ —	$ 381,700

See accompanying notes to the unaudited condensed consolidated financial statements.

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

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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, the Company effected a Share Exchange pursuant to which the Company 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 embryonic stem cell ("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. 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.

On June 4, 2009, the Company formed a new entity "Lifeline Skincare, Inc." This new entity was developed to manufacture and distribute skincare 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. The Company needs to raise additional working capital. The timing and degree of any future capital requirements will depend on many factors. Currently our burn rate is approximately $700,000 per month, excluding capital expenditures. There can be no assurance that the Company will be successful in maintaining its normal operating cash flow and the timing of its capital expenditures will result in cash flow sufficient to sustain the Company's operations through 2011. Based on the above, there is substantial doubt about the Company's ability to continue as a going concern. The financial statements were prepared assuming that the Company is a going concern. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty. Management's plans in regard to these matters are focused on managing its cash flow, the proper timing of its capital expenditures, and raising additional capital or financing in the future.

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.

The accompanying unaudited condensed consolidated financial statements included herein have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q. They do not include all information and notes required by generally accepted accounting principles for complete financial statements. However, except as disclosed herein, there has been no material change in the information disclosed in the notes to consolidated financial statements included in the annual report on Form 10-K of International Stem Cell Corporation for the year ended December 31, 2009. When used in these notes, the terms "Company," "we," "us," or "our" mean International Stem Cell Corporation and all entities included in our unaudited condensed consolidated financial statements.

In the opinion of management, the unaudited condensed consolidated financial information for the interim periods presented reflects all adjustments, consisting of only normal and recurring adjustments, necessary for a fair presentation of the Company's consolidated results of operations, financial position and cash flows. The unaudited condensed consolidated financial statements and the related notes should be read in conjunction with the Company' audited consolidated financial statements for the year ended December 31, 2009 included in the Company's annual report on Form 10-K. Operating results for interim periods are not necessarily indicative of the operating results for any interim period or an entire year.

Principles of Consolidation

The unaudited condensed consolidated financial statements of the Company include the accounts of International Stem Cell Corporation and its 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 accounted for using the first-in, first-out (FIFO) method and are stated at the lower of cost or market. Lab supplies used in the research and development process are expensed as consumed. Inventory is reviewed periodically for product expiration and obsolescence and adjusted accordingly.

Property and Equipment

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

Patent Licenses

Patent licenses consist of acquired research and development rights used in research and development, which have alternative future uses. Patent licenses are recorded at cost of $1,141,187 and $980,850 at June 30, 2010 and December 31, 2009, respectively, and are amortized on a straight-line basis over the shorter of the lives of the underlying patents or the useful life of the license. Amortization expense for the six months ended June 30, 2010 and 2009 amounted to $34,717 and $27,545, respectively, and is included in research and development expense. 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 June 30, 2010. See Note 4 for a discussion on the Company's patent licenses.

Product Sales

The Company recognizes revenue from product sale at the time of shipment to the customer, provided no significant obligations remain and collection of the receivable is reasonably assured. 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 including any mix of products and/or services. Revenue recognition for contracts with multiple deliverables is based on the individual units of accounting determined to exist in the contract. A delivered item is considered a separate unit of accounting when the delivered item has value to the customer on a stand-alone basis. Items are considered to have stand-alone value when they are sold separately by any vendor or when the customer could resell the item on a stand-alone basis. 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

In accordance with applicable authoritative guidance, the Company is required to 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.

Fair Value Measurements

During 2008, the Company adopted authoritative guidance for fair value measurements and fair value 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 assets and liabilities as of June 30, 2010.

	Total	Level 1	Level 2	Level 3
ASSETS:				
Cash equivalents	$7,500,305	$7,500,305	$ —	$ —
LIABILITIES:				
Warrants to purchase common stock	$ —	$ —	$ —	$ —

Equity-linked financial instruments consist of stock warrants issued by the Company that contain a strike price adjustment feature. In accordance with applicable authoritative guidance on Derivatives and Hedge Accounting, the Company calculated the fair value of warrants using the Black-Scholes option pricing model and the assumptions used are described above. For the three and six months ended June 30, 2010, we recorded a decrease in market value of $5,276,282 and $319,741, respectively.

During the second quarter of 2010, the holders of the warrants issued to purchasers of Series A and B Preferred Stock all signed a waiver to give up their rights to the anti-dilution provisions related to the warrants. The modification to the Warrant Agreement, triggered the warrants to be re-valued at the date of modification and to be reclassified from a liability to equity. The re-valuation of the warrants resulted in a reduction in the warrant value of $319,741 which was recorded as a credit to income for the quarter. The adjusted value of the warrants of $804,971 was recorded as a credit to Additional Paid in Capital, thus eliminating the outstanding warrant liability as of June 30, 2010.

Recent Accounting Pronouncements

In January 2010, the FASB issued Accounting Standards Update ("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 February 2010, the FASB issued Accounting Standards Update 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.

In March 2010, the FASB issued Accounting Standards Update 2010-11, Derivatives and Hedging (Topic 815): Scope Exception Related to Embedded Credit Derivatives. ASU 2010-11 clarifies and amends the accounting for credit derivatives embedded in beneficial interests in securitized financial assets. Currently, certain credit derivative features embedded in beneficial interests in securitized financial assets are not accounted for as derivatives. The new guidance will eliminate the scope exception for embedded credit derivatives (except those that are created solely by subordination) and provides new guidance on the evaluation to be performed. Bifurcation and separate recognition may be required for certain beneficial interests that are currently not accounted for at fair value through earnings. The new guidance is effective at the beginning of its first fiscal quarter beginning after June 15, 2010. Early adoption is permitted at the beginning of each entity's first fiscal quarter beginning after March 5, 2010. At adoption, a company may make a one-time election to apply the fair value option on an instrument-by-instrument basis for any beneficial interest in securitized financial assets. The provisions of ASU 2010-11 are not expected to have an impact on the Company's financial statements.

In April 2010, the FASB issued Accounting Standards Update 2010-13, Compensation—Stock Compensation (Topic 718): Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in Which the Underlying Equity Security Trades. ASU 2010-13 updates ASC 718 to codify the consensus reached in EITF Issue No. 09-J, Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in Which the Underlying Equity Security Trades. The ASU clarifies that share-based payment awards with an exercise price denominated in the currency of a market in which a substantial portion of the underlying equity security trades should not be considered to meet the criteria requiring classification as a liability. The updated guidance is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010. Early adoption is permitted. The provisions of ASU 2010-13 are not expected to have an impact on the Company's financial statements.

Income Taxes

The Company accounts for income taxes in accordance with applicable authoritative guidance, which requires the Company to provide a net deferred tax asset/liability equal to the expected future tax benefit/expense of temporary reporting differences between book and tax accounting methods and any available operating loss or tax credit carryforwards. The Company has available at June 30, 2010, operating loss carryforwards of approximately $27,596,000, which may be applied against future taxable income and will expire in various years through 2025. At December 31, 2009, the company had operating loss carryforwards of approximately $25,570,000. The increase in net operating loss carryforwards for the six months ended June 30, 2010 is approximately $2,026,000.

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 unaudited condensed consolidated financial statements. Significant estimates include patent life (remaining legal life versus remaining useful life) and transactions using the Black-Scholes option pricing model, e.g., promissory notes, warrants, and stock options. Actual results could differ from those estimates.

Concentration of Credit Risk

The Company maintains its cash and cash equivalents in banks located in the United States. Bank accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 per financial institution. At June 30, 2010, the Company did not have any cash in banks in excess of the FDIC insurance limits. Also, at June 30, 2010, the Company had $7,500,305 of cash in accounts which are under the Securities Investor Protection Corporation (SIPC). For December 31, 2009, the Company's cash balances on deposit with the financial institutions in excess of the FDIC insurance limit amounted to $526,086. Excess funds are invested in government securities only.

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 June 30, 2010, there were approximately 7,682,678 warrants, 6,301,481 vested stock options issued within the Company's 2006 and 2010 stock option plan as well as stock options issued outside the 2006 and 2010 stock option plan and 13,227,100 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.

Comprehensive Income

The Company displays comprehensive income or loss, its components and accumulated balances in its consolidated financial statements. Comprehensive income or loss includes all changes in equity except those resulting from investments by owners and distributions to owners. The Company did not have any items of comprehensive income or loss other than net loss from operations for the three and six months ended June 30, 2010 and 2009 or the period from inception through June 30, 2010.

2. Inventory

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

	June 30, 2010	December 31, 2009
Raw materials	$180,485	$ 133,192
Work in process	3,877	189,679
Finished goods	518,112	308,438
	$702,474	$ 631,309

3. Property and Equipment

Property and equipment consists of the following:

	June 30, 2010	December 31, 2009
Machinery and equipment	$ 696,521	$ 660,282
Computer equipment	206,626	196,665
Office equipment	74,616	72,307
Leasehold improvements	810,501	661,870
	1,788,264	1,591,124
Accumulated depreciation and amortization	(480,972)	(381,615)
	$1,307,292	$ 1,209,509

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: Infigen IP, UMass IP and ACT IP, which terms are summarized below. The license fees aggregate a total of $400,000 and were secured by separate convertible promissory notes. The notes bear no interest unless they are not repaid at maturity, in which event they shall thereafter bear interest at an annual rate equal the lesser of 10% or the maximum non-usurious rate legally allowed.

The note could be converted at the option of ACT into the first equity financing of Lifeline with cash proceeds in excess of $5,000,000 under the following conditions: i) Upon the consummation of the First Equity Financing; or ii) Immediately prior to the closing of any merger, sale or other consolidation of the Company or of any sale of all or substantially all assets of the Company which occurs prior to the First Equity Financing (an “Acquisition Event”). Notwithstanding the above, and only in the event that a conversion resulting from such Acquisition Event would result in a security not traded on a national stock exchange (including NASDAQ and NASDAQ Capital market), upon written notice to the Company not later than five days after the consummation of the Acquisition Event and notice of the Acquisition Event to the holder of the note, the holder may elect to receive payment in cash of the entire outstanding principal of this Note. On December 21, 2007, ACT elected to receive payment in cash in lieu of conversion of the notes, which was paid in full.

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

	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:

	June 30, 2010	December 31, 2009
Management fee	$ —	$ 292,009
Loan payable	—	177,664
Related party payables	$ —	$ 469,673

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.

In June 2010, both the management fees and loan payables were paid in full.

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 $850,000 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 was originally due and payable on or before January 31, 2009. The note was convertible into shares of common stock of the Company at the rate of $0.50 per share. The note was 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 $0.25 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.

Pursuant to an extension agreement designed to allow its lender additional time in which to elect to convert the remaining balance of the Company's bridge financing, thus reducing the Company's need for future capital, on February 5, 2009, the Company and Gemini Master Fund Ltd. extended the due date for the remaining $400,000 balance of the Promissory Note previously issued to Gemini

Master Fund Ltd. from its original due date of January 31, 2009 to a new due date of April 5, 2009. The Company deposited the remaining balance of the note in an interest bearing escrow account, which would have been released to the lender if the note balance was not converted to common stock of the Company; and the principal amount of the note that is converted to common stock will be released to the Company. The Company re-paid $500,000 of the original $1,000,000 note prior to its due date and tendered the remaining balance prior to entering into this extension. Gemini Master Fund Ltd. converted all of the $500,000 of the note into common stock as of September 30, 2009. Gemini Master Fund Ltd. has released all liens against the Company's assets.

In accordance with applicable authoritative guidance, 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.

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 to produce, make, and distribute Joint Products. The $250,000 advance will be paid down with the first $250,000 of net revenues that otherwise would be allocated to Lifeline under the agreement. As of June 30, 2010, no revenues were realized from this agreement.

	June 30, 2010	December 31, 2009
Bio Time, Inc	$250,000	$ 250,000

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.

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 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 that number of shares of common stock for $1.00 each.

On January 15, 2008, to raise funds, the Company entered into a subscription agreement with accredited investors for the sale between 1,000,000 and 5,000,000 of Series A Preferred Stock ("Series A Preferred"). Series A Units consist 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.

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.

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.

In accordance with the applicable authoritative guidance, 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 exercise price for those warrants was 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.

	June 30, 2010
Expected life (years)	4.0
Expected volatility	76.36%
Risk-free interest rate	0.95%
Expected dividend yield	0.0%

During the six months ended June 30, 2010, no Series A or B warrants were exercised and as of June 30, 2010, 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.

During the second quarter of 2010, the holders of the warrants issued to the purchasers of Series A and B Preferred Stock signed a waiver to give up their rights to the anti-dilution provisions related to the warrants and the exercise price is now fixed at $0.25. The modification to the warrants resulted in the change in classification from a liability to equity and the warrants were re-valued at the date of modification. The re-valuation of the warrants resulted in a reduction in the warrant value of $5,276,282 which was recorded as a credit to income. The adjusted value of the warrants of $804,971 was reclassified to Additional Paid in Capital, thus eliminating any fair value of outstanding warrant liability as of June 30, 2010.

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, 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) 10 shares were sold on February 5, 2009; and (3) 10 shares were sold on each of March 20, 2009, and June 30, 2009 and 3 shares on September 30, 2009.

During the nine months ended September 30, 2009, the Company raised a total of $3,000,000 in the Series D Preferred Stock round and was recorded as a Preferred Stock. The beneficial conversion feature from the Series D Preferred Stock is recognized as deemed dividend totaling $2,480,000.

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.

During the quarter ended September 30, 2009, the Company issued a total of 3,510,206 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 484,675 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.

The number of warrants converted into common stock by Brookstreet was 484,675 for the completion of 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 that number of shares of common stock for $1.00 each.

On June 30, 2009, the Company entered into a definitive agreement with Optimus Capital Partners, LLC ("Investor") for a $5 million investment commitment. The deal is structured where by the Company may draw down funds as needed, but has no obligations to make draws or use these funds if not needed. As funds are drawn down, the Company will issue Series E Preferred Stock (the "Preferred Stock"). The Preferred Stock will not be convertible into common stock and may be redeemed by the Company after one year. Each issue of Preferred Stock will be accompanied by the issuance of five-year warrants to purchase common stock at 100% of the closing price of the company's common stock on the day prior to the date the company gives notice of its election to draw funds. The total exercise value of warrants issued will equal 135% of the drawdown amount. Dividends on the Preferred Stock are payable in additional shares of non-convertible Preferred Stock at the rate of 10% per annum. A commitment fee of $250,000, payable in shares of common stock, was made to the Investor. As part of the agreement, the Company filed an S-1 on July 31, 2009, which was declared effective on September 30, 2009. The Investment will be used to fund operations and working capital needs of the Company and expand its scientific research.

On July 31, 2009, the Company filed an S-1 with the Securities and Exchange Commission as part of the Preferred Stock Purchase Agreement the Company signed on June 30, 2009, between International Stem Cell Corporation and a biotechnology-focused fund. Per the agreement, the Company will use its best efforts to promptly file (but in no event later than 30 days after the Effective Date) and cause to become effective as soon as possible a Registration Statement for the sale of all Common Shares. Each Registration Statement shall comply when it becomes effective, and, as amended or supplemented, at the time of any Tranche Notice Date, Tranche Closing Date, or issuance of any Common Shares, and at all times during which a prospectus is required by the Act to be delivered in connection with any sale of Common Shares, will comply, in all material respects, with the requirements of the Act. As of to date, the Company is in compliance with all requirement per the agreement.

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 first two quarters, ended June 30, 2010, the Company drew $2.4 million of the private equity financing and issued 24 shares of the Series E Preferred Stock, as well as issued 3.7 million warrants which were immediately exercised to purchase 3.7 million shares of the Company's common stock under the S-1 filed in July 2009.

On June 11, 2010, the Company entered into an Exchange Agreement (the "Optimus Exchange Agreement") with Optimus Capital Partners, LLC ("Optimus") under which the Company and Optimus agreed to exchange all of the Series E Preferred Stock previously issued to Optimus pursuant to the Preferred Stock Purchase Agreement dated June 30, 2009 (the "Optimus Preferred Stock Agreement") for all of the promissory notes of Optimus (the "Optimus Notes") issued to the Company in that transaction as payment for shares of the Company's Common Stock. As part of the exchange transaction, the Company agreed to waive all accrued interest on the Optimus Notes and Optimus agreed to waive all accrued dividends and redemption premiums on the Series E Preferred Stock.

On May 4, 2010, International Stem Cell Corporation entered into a Preferred Stock Purchase Agreement with Socius CG II, Ltd., a Bermuda exempted company (the "Investor"), to sell for up to 10 million dollars ($10,000,000) up to one thousand (1,000) shares of Series F Preferred Stock ("Series F Preferred") at a price of $10,000 per Series F Preferred share. The Company is entitled to determine the time and amount of Series F Preferred to be purchased by the Investor and the Company intends to sell all 1,000 shares of Series F Preferred at a single time. The Series F Preferred may not be converted into common stock and is redeemable by the Company. Under the terms of the Agreement, the Company provided the Investor with a non-refundable fee of 250,000 shares of Company common stock (the “Fee Shares”) and issued the Investor a warrant to purchase up to 7,000,000 shares of the Company’s common stock, with the exercise price of $1.93 per share, subject to adjustment. The closing of the sale of the Series F Preferred took place in early June 2010.

On June 11, 2010, the Company, entered into an Exchange Agreement (the “Socius Exchange Agreement”) with Socius CG II, Ltd. (“Socius”) under which the Company and Socius agreed to exchange all of the Series F Preferred Stock previously issued to Socius pursuant to the Preferred Stock Purchase Agreement dated May 4, 2010 (the “Socius Preferred Stock Agreement”) for all of the promissory notes of Socius (the “Socius Notes”) issued to the Company in that transaction as payment for shares of the Company’s Common Stock and a $2.5 million note issued in partial payment for the Socius Series F Preferred Stock. As part of the exchange transaction, the Company agreed to waive all accrued interest on the Socius Notes and Socius agreed to waive all accrued dividends and redemption premiums on the Socius Series F Preferred Stock.

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 applicable authoritative guidance on Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity, the Company 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 rates ranging from 2.40% to 2.65%, volatility rate ranging from 64.46% to 65.33%, term of five years, and exercise price ranging from $0.56 to $0.74.

As a result of these two exchange transactions, all of the company’s obligations under previously outstanding Series E Preferred Stock and Series F Preferred Stock, which collectively had liquidation preferences of $15 million senior to the shares of the Company’s common stock and redemption premiums that started at 26% of the liquidation preference, retired and the Company no longer holds any promissory notes of either Socius or Optimus. Because the parties to these exchange transactions determined that the instruments and rights being exchanged were of equivalent value, neither party paid any cash to the other party to the exchange transaction. Therefore, as of June 30, 2010, the Company reversed out all of the Perpetual Preferred Stock and the Notes Receivable related to the Perpetual Preferred Stock.

8. Income Taxes

The Company accounts for income taxes in accordance with applicable authoritative guidance, which requires the Company to provide a net deferred tax asset/liability equal to the expected future tax benefit/expense of temporary reporting differences between book and tax accounting methods and any available operating loss or tax credit carryforwards. The Company has available at June 30, 2010, operating loss carryforwards of approximately $27,596,000, which may be applied against future taxable income and will expire in various years through 2025. At December 31, 2009, the company had operating loss carryforwards of approximately $25,570,000. The increase in carryforwards for the six months ended June 30, 2010 is approximately $2,026,000.

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 six months ended June 30, 2010 and year ended December 31, 2009 follows:

	June 30, 2010	December 31, 2009
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:

	June 30, 2010	December 31, 2009
Deferred tax assets (liabilities)		
Net operating loss carryforwards	$ 11,314,000	$ 10,106,000
Accrued expenses	202,000	632,000
Research and Development tax credit (Fed and St.)	141,000	184,000
Deferred tax assets	11,657,000	10,922,000
Valuation allowance	(11,657,000)	(10,922,000)
Net deferred tax assets	$ —	$ —

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

	June 30, 2010	December 31, 2009
Current	$ —	$ —
Deferred	—	—
Total	$ —	$ —

9. Stock Options and Warrants

The Company has adopted the 2006 Equity Participation Plan (the "2006 Plan"). The options granted under the 2006 Plan may be either qualified or non-qualified options. Up to 15,000,000 options may be granted to employees, directors and consultants under this Plan. Options may be granted with different vesting terms and expire no later than 10 years from the date of grant.

In April 2010, the Company adopted the 2010 Equity Participation Plan (the "2010 Plan"). The options granted under the 2010 Plan may be either qualified or non-qualified options. Up to 18,000,000 options may be granted to employees, directors and consultants under the 2010 Plan. Options may be granted with different vesting terms and expire no later than 10 years from the date of grant.

In November and December of 2009, the Company issued non-qualified stock option to purchase 10,257,593 shares of common stock to certain employees and consultants. These options vest over 50 months and expire not later than 10 years from the date of grant.

The Company accounts for stock-based compensation under provisions that require that share-based payment transactions with employees be recognized in the financial statements based on their fair value and recognized as compensation expense over the vesting period. The amount of expense recognized during the period is affected by subjective assumptions, including the following:

Expected Life - The expected life of options granted represents the period of time for which the options are expected to be outstanding.

Expected Volatility - The expected volatility is based on the historical volatility of the Company's common stock over the estimated expected life of the options. The Company does not have enough trading history of its common stock to develop a volatility rate to use in the calculation. Therefore, the Company analyzed two competitor's volatility rates over a five year period and averaged them into one rate.

Risk-Free Interest Rate - The risk-free interest rate is derived from the U.S. Treasury yield curve in effect at the date of grant.

Dividends - The Company does not currently anticipate paying any cash dividends on its common stock. Consequently, the Company uses an expected dividend yield of zero in the Black-Scholes option valuation model.

Forfeitures - - the Company estimates forfeitures at the time of grant and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. To determine an expected forfeiture rate, the Company examined the historical employee turnover rate over the prior years as a proxy for forfeitures.

Table of Contents

The fair value of options granted is estimated at the date of grant using a Black-Scholes option-pricing model with the following weighted-average assumptions for the three months ended June 30, 2010:

	Three Months Ended June 30, 2010	Six Months Ended June 30, 2010
Risk free interest rate	2.14%	1.86%
Dividend yield	0.0%	0.0%
Volatility factor of the expected market price of the Company's common stock	72.91%	78.34%
Weighted-average expected life of options	5.3 Years	4.0 Years

Compensation expense is recognized only for those options expected to vest, with forfeitures estimated at the date of grant based on the Company's historical experience and future expectations. For the six months ended June 30, 2010 and 2009, 491,434 and $227,144 was recognized as stock-based compensation expense, respectively. Unrecognized compensation cost related to stock options as of June 30, 2010 was $1,643,967, which is expected to be recognized on a straight-line basis over a weighted average period of approximately 2.9 years.

Transactions involving stock options issued to employees, directors and consultants under the 2006 Plan, the 2010 Plan and outside the pans are summarized below. Options issued 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 as of June 30, 2010:

	Options Outstanding			Options Exercisable	
Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighed Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$0.22-$0.50	2,800,100	8.11	$ 0.44	1,227,000	$ 0.44
$0.51-$0.75	12,281,281	9.38	$ 0.61	1,474,881	$ 0.61
$0.76-$1.00	2,769,939	5.52	$ 1.00	2,588,339	$ 1.00
$1.01-$1.25	24,600	7.32	$ 1.15	13,800	$ 1.15
$1.26-$1.50	350,000	7.47	$ 1.43	210,000	$ 1.45
$1.52-$3.20	720,000	8.79	$ 2.04	204,800	$ 2.80
	18,945,920			5,718,820	

	Number of Shares issued under 2006 Plan and 2010 Plan	Weighted Average Price Per Share
Outstanding at December 31, 2009	8,112,037	$ 0.76
Granted	550,000	$ 1.55
Exercised	(413,000)	$ 0.84
Canceled/forfeited	(218,900)	$ 0.57
Outstanding at June 30, 2010	8,030,137	$ 0.81

	Number of Shares issued outside the Plan	Weighted Average Price Per Share
Outstanding at December 31, 2009	11,049,593	$ 0.64
Granted	—	$ —
Exercised	(105,061)	$ 0.97
Canceled/forfeited	(28,749)	$ 0.62

Outstanding at June 30, 2010	10,915,783	$ 0.64

Warrants

During 2008, the Company raised additional capital by issuing Preferred Series A, B, C and D stock. This issuance of the Preferred Series C triggered an anti-dilutive clause in the Brookstreet warrant agreement, where Brookstreet would receive an adjustment downward in the price they pay for converting its warrants and resulted in a deemed dividend of $336,522. In 2007, Brookstreet Securities Corporation earned 274,000 warrants as compensation for its services as placement agent for the raising of equity capital for the quarter. Brookstreet earned 1,976,190 warrants in 2006. Brookstreet earned a total of 2,250,190 warrants in 2006 and 2007 in connection with the Company's private placement. Each Warrant entitles the holder thereof to purchase one share of common stock for $1.00, revalued to $0.56 per warrant. The Company recognized the value attributable to the warrants in the amount of $1,230,649 in 2006 and $169,249 in 2007 as a component of additional paid-in capital with a corresponding reduction in additional paid-in capital to reflect the issuance as a non-cash cost of the offering. The Company valued the Brookstreet warrants using the Black-Scholes pricing model and the following assumptions: contractual terms of 5 years, an average risk free interest rate of 4.58%, a dividend yield of 0% and 0%, and volatility of 70.57%.

As part of the capital raising efforts, the Company issued during the quarter ended March 31, 2008 two warrants to purchase shares of common stock with the purchase of one Series A Preferred Stock issued, there were an additional 2,000,000 common stock warrants outstanding relating to the Series A Preferred Stock.

As part of the capital raising efforts, the Company issued two warrants to purchase shares of common stock with the purchase of one Series B Preferred Stock. As of September 30, 2008, there were an additional 1,100,000 common stock warrants outstanding relating to the Series B Preferred Stock.

During the second quarter of 2008, the Company entered into an agreement to borrow $1.0 million and as part of this agreement, the Company issued warrants where the holder can purchase up to 2,000,000 shares of common stock from the Company at $0.25 per share until five years from the issuance of the warrants.

During June 2008, the Company entered into an agreement with BioTime, Inc. ("Bio Time"), where Bio Time will pay an advance of $250,000 to LifeLine to produce, make, and distribute Joint Products. As part of the agreement, the Company issued warrants for Bio Time to purchase 30,000 shares of the Company's common stock at $0.25 per share. These warrants expire 4 years from date of grant.

10. Commitments and Contingencies

Leases

The Company leases office space under a non-cancelable operating lease. Future minimum lease payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of June 30, 2010, are as follows:

	Amount
2010	$ 93,317
2011	86,478
2012	—
2013	—
2014	—
Total	$179,795

11. Subsequent Events

The Company has evaluated subsequent events for recognition or disclosure in the financial statements filed on Form 10-Q with the SEC and no other events, other than those described in these notes, have occurred that require disclosure.

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

The following discussion of our financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements and related notes and other financial information included elsewhere herein. This information should also be read in conjunction with our audited historical consolidated financial statements which are included in our Form 10-K for the fiscal year ended December 31, 2009. 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 only represents our management's best present assessment.

Overview

We were originally incorporated in Delaware on June 7, 2005 as BTHC III, Inc. to effect the reincorporation of BTHC III, LLC, a Texas limited liability company, mandated by a plan of reorganization.

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

Results of Operations

Revenues

We are a development stage company and as such have generated nominal revenues. During the three months ended June 30, 2010, our product sales have continued to increase. We recognized $441,118 of product revenue for the three months ended June 30, 2010, compared to $388,810 for the three months ended June 30, 2009.

Product revenue recognized for the six months ended June 30, 2010, amount to $713,744, compared to $572,109 for the six months ended June 30, 2009. The primary reason for the increase is due to collaboration agreements we had in place during 2009 to provide stem cells and reagents to work with stem cells. Also, our sales and marketing teams have implemented new strategies to increase our product revenue which are successful to date.

Cost of sales

Cost of sales for the quarter ended June 30, 2010, were $214,330, compared to $260,179 for the quarter ended June 30, 2009. Cost of sales for the six months ended June 30, 2010 were $360,706, compared to $550,341 for the six months ended June 30, 2009. As we refine our manufacturing processes, and our sales volume continues to increase, we anticipate our cost of sales as a percentage of sales to decrease and become more consistent as we build a consistent level of producing product.

Research and Development

Research and development expenses were $754,000, for the three months ended June 30, 2010, an increase of $229,551, or 44%, compared to $524,449 for the three months ended June 30, 2009. During 2010, we have incurred additional salary expenses related to additional research scientists and our increased research activities. Although we had an increase in research and development expenses, processes we have put in place to gain efficiencies in our laboratory and production activities helped us reduce the overall costs associated with our labs located in Oceanside, California and Walkersville, Maryland.

Research and development expenses for the six months ended June 30, 2010 were $1,338,069 an increase of $266,019, or 25%, compared to $1,072,050 for the six months ended June 30, 2009. The increase was primarily due to salary expenses related to additional research scientists and our increased research activities. Over time, we gained efficiencies in our laboratory activities and streamlined our production activities to reduce costs for our labs located in Oceanside, California and Walkersville, Maryland.

General and Administrative Expenses

General and administrative expenses were $2,033,615 for the three months ended June 30, 2010, an increase of $459,424 or 29%, compared to $1,574,191 for the three months ended June 30, 2009. The primary reason for the increase relates to the additional headcount, additional legal and accounting expense relating to our fund raising efforts during the second quarter of 2010.

General and administrative expenses for the six months ended June 30, 2010 were $3,408,821, an increase of $1,031,442, or 43%, compared to $2,377,379 for the same period ended June 30, 2009. The increase can be attributed to our fund raising efforts during 2010, including an S-1 that was originally filed in January 2010, dividends incurred on Preferred Stock and other general corporate expenses.

Marketing Expense

Marketing expenses were $291,576 for the three months ended June 30, 2010, an increase of $163,555, or 128%, compared to $128,021, for the three months ended June 30, 2009. During 2010, we continue to focus our marketing efforts and spend our marketing dollars on marketing consultants, trade shows and the cost of advertising. We continued to develop our marketing and sales strategies as well as our marketing infrastructure to support our sales team and our sales goals.

Marketing expenses for the six months ended June 30, 2010 were $424,994, an increase of $161,474, or 61% compared to $263,520 for the six months ended June 30, 2009. During 2010, we continue to focus our marketing efforts and spend our marketing dollars on marketing consultants, trade shows and the cost of advertising. We continued to develop our marketing and sales strategies as well as our marketing infrastructure to support our sales team and our sales goals.

Liquidity and Capital Resources

At June 30, 2010, we had an increase in cash of $6,904,620 for the six months ended June 30, 2010, resulting from $11,140,272 million of cash provided by our financing activities, $3,878,173 million cash used in operating activities and $357,479 used in investment activities. Funds generated from previous financing activities were used mainly to support our operating losses.

Operating Cash Flows

Net cash used in operating activities of $3,878,173 for the six months ended June 30, 2010 was primarily attributable to a net loss of $4,504,309. The adjustments to reconcile the net loss to net cash used in operating activities primarily include depreciation and amortization expense of $134,074, non-cash compensation expense of $512, 924, change in market value of warrants of $319,741, stock and warrants issued for services of $832,200, an increase in accounts receivable of $176,150, an increase in inventory of $71,165, an increase in prepaid assets of $32,654, an increase in deposits and other assets of $611, an increase in accounts payable of $382,155, a decrease in accrued expenses of $139,601, and a decrease in related party payables of $469,673, attributable to repayments. The major portion of this increase in cash used resulted from increased spending in general and administrative expenses.

Investing Cash Flows

Net cash used in investing activities of $357,479 for the six months ended June 30, 2010 was primarily attributable to purchases of property and equipment of $197,142 consisting primarily of laboratory equipment for use in a variety of research projects and building leasehold improvements related to new research labs. In addition we made payments for patent licenses of $160,337 for the six months ended June 30, 2010.

Financing Cash Flows

Net cash provided by financing activities of $11,140,272 for the six months ended June 30, 2010 was primarily attributable to closing a Series E Preferred Stock financing round totaling $2,410,750 and Series F Preferred Stock financing of $7,500,000. The Series E Preferred financing during the six months was part of an existing agreement to raise five million dollars by issuing Series E Preferred Stock. During the six months we also raised equity by offering common stock at a discount and have raised $1,335,549. In June 2010, we closed on our Series F Preferred Stock financing round for $7,500,000 and issued 1,000 shares of Series F Preferred Stock. As part of this agreement, we issued 7,250,000 shares of our common stock which was registered under our S-1 at a net exercise price of $1.03 per share. The capital raised during the year has been and will be used in our research and develop activities, development of our commercial research products and for general working capital purposes.

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

- the accuracy of the assumptions underlying our estimates for capital needs in 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. Additional debt financing may be expensive and require us to pledge all or a substantial portion of our assets. Further, if additional funds are obtained through arrangements with collaborative partners, these arrangements may require us to relinquish rights to some of our technologies, product candidates or products that we would otherwise seek to develop and commercialize on our own. If sufficient capital is not available, we may be required to delay, reduce the scope of or eliminate one or more of our product lines.

We do not currently have any obligations for milestone payments under any of our licensed patents other than annual payments of $150,000 due each May to Advanced Cell Technology, plus payments that are specifically related to sales and are therefore unpredictable as to timing and amount. Royalties on sales range of 3% to 12%, and milestone payments do not begin until our first therapeutic product is launched. No licenses are terminable at will by the licensor. For further discussion of our patents, see Note 4 to our condensed consolidated financial statements.

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.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not Required.

Item 4. Controls and Procedures

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

Changes in Internal Controls Over Financial Reporting. There was no change in our internal control over financial reporting for the quarter ended June 30, 2010 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. It should be noted that any system of controls, however well designed and operated, can provide only reasonable assurance, and not absolute assurance, that the objectives of the system are met. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of future events. Because of these and other inherent limitations of control systems, there can be no assurance that any design will succeed in achieving its stated goals in all future circumstances.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

Not required.

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

From the last date reported on Form 10-Q filed on May 14, 2010, the Company has issued an additional 979,259 shares of common stock in transactions that were not registered under the Securities Act of 1933. The Company issued (i) a total of 65,006 shares upon conversion of previously issued shares of preferred stock or warrants held by a total of six investors, (ii) a total of 307,692 shares of common stock for total consideration of $200,000 from a stock purchase by two accredited investors, and (iii) a total of 340,000 shares of common stock issued for consideration from Investor Relations services. The shares of common stock issued in clauses (ii) and (iii) were offered and sold in private placement transactions made in reliance upon exemptions from registration pursuant to Section 4(2) of the Securities Act of 1933. The shares of common stock issued in clause (i) were sold in exchange for previously issued securities in transactions exempt from registration pursuant to Section 3(a)(9) of the Securities Act.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Reserved

Item 5. Other Information

None.

Item 6. Exhibits

3.1	Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit 3.4 of the Registrant's Form 10-SB filed on April 4, 2006).
3.2	Certificate of Amendment of Certificate of Incorporation (incorporated by reference to Exhibit 3.1 of the Registrant's Preliminary Information Statement on Form 14C filed on December 29, 2006).
3.3	Amended and Restated Bylaws of the Registrant (incorporated by reference to Exhibit 3.2 of the Registrant's Preliminary Information Statement on Form 14C filed on December 29, 2006).
4.1	Form of Specimen Common Stock Certificate (incorporated by reference to Exhibit 4.1 of the registrant's Annual Report on Form 10-K filed March 30, 2010).
4.2	Certificate of Designation of Series A Preferred Stock (incorporated by reference to Exhibit 4.1 of the Issuers Form 8-K filed on January 17, 2008).
4.3	Certificate 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	Certificate 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	Certificate 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	Certificate of Designation of the Series F Preferred Stock of International Stem Cell Corporation dated May 4, 2010 (incorporated by reference to Exhibit 10.2 of the Issuer's Form 8-K filed on May 5, 2010).
4.8	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).
4.9	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	2010 Equity Participation Plan (incorporated by reference to Appendix A.of the Issuer's SCHEDULE 14A filed March 30, 2010)
10.2	Preferred Stock Purchase Agreement (incorporated by reference to Exhibit 10.2 of the Issuer's form 8-K filed May 5, 2010)
10.3	Cell Culture Automation Agreement dated May 13, 2010 (incorporated by reference to Exhibit 10.2 of the Issuer's form 8-K filed May 19, 2010)
10.4	Exchange Agreement with Socius CG II, Ltd dated June 11, 2010.
10.5	Exchange Agreement with Optimus Capitol Partners, LLC dated June 11, 2010.
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.

Table of Contents

SIGNATURES

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

INTERNATIONAL STEM CELL CORPORATION

Dated: August 6, 2010

By:	/S/ ANDREY SEMECHKIN
Name:	**Andrey Semechkin**
Title:	**Chief Executive Officer**
By:	/S/ RAY WOOD
Name:	**Ray Wood**
Title:	**Chief Financial Officer (Principal Financial and Accounting Officer)**

Exhibit 10.4

EXCHANGE AGREEMENT

THIS EXCHANGE AGREEMENT (this "***Agreement***") is made effective as of this 11th day of June, 2010, by and between Socius CG II, Ltd., a Bermuda exempted company ("***Socius***"), and International Stem Cell Corporation, a Delaware corporation (the "***Company***").

WHEREAS, on May 4, 2010 the parties entered into a Preferred Stock Purchase Agreement (the "***Purchase Agreement***") pursuant to which Socius agreed to purchase One Thousand (1,000) shares of the Company's Series F Preferred Stock (the "***Preferred Stock***") and received a warrant to purchase up to 7,000,000 shares of the Company's common stock (the "***Warrant***");

WHEREAS, the Preferred Stock accrues a dividend in shares of Series F Preferred Stock on a daily basis at a rate equal to 10% per annum from the date of issuance with the dividend being payable on the date the Preferred Stock is redeemed (the "***Dividend***");

WHEREAS, the Preferred Stock is redeemable commencing one year after its issuance, subject to payment of redemption premiums that start at 26% and decline to 0% after the Preferred Stock has been outstanding for four years (the "***Redemption Premiums***");

WHEREAS, on May 5, 2010, Socius exercised the Warrant for 7,000,000 shares of Company common stock at an exercise price of $1.92857150 per share and a total purchase price of $13,500,000, all of which was paid by delivery to the Company of a secured note accruing interest at 2% per annum (the "***Warrant Note***");

WHEREAS, on June 4, 2010, the Company issued Socius 1,000 shares of the Preferred Stock for a total purchase price of $10,000,000, $7,500,000 of which was paid in cash and $2,500,000 of which was paid in a secured note accruing interest at 2% per annum (the "***Preferred Note***");

WHEREAS, Socius has offered to exchange the Preferred Stock and to waive all Dividends (collectively, the "***Preferred Stock Exchange***") in return for the cancellation of the Warrant Note and the Preferred Note and the waiver of all interest on the Warrant Note and the Preferred Note (collectively, the "***Debt Exchange***"), and the other terms set forth in this Agreement, and the Company desires to accept such offer; and

WHEREAS, Socius and the Company, each being a willing party to this transaction and neither being under any compulsion to exchange the instruments, rights and benefits being exchanged pursuant to this Agreement, acknowledge that they are each aware of the relevant facts relating to the exchange (including, without limitation, (i) the differences between the interest rates on the Warrant Note and the Preferred Note and the dividend rates on the Preferred Stock, (ii) the Redemption Premiums payable once the Preferred Stock is redeemable, (iii) the fact that the Preferred Stock is not yet redeemable, and (iv) the various benefits to each party under the contemplated exchange, which the parties have agreed offset the difference between the principal amount of the Warrant Note and the Preferred Note and the liquidation preference of the Preferred Stock), and further acknowledge and agree that, in total, the instruments, rights and benefits being exchanged by each side are of equivalent value.

NOW, THEREFORE, in consideration of the mutual covenants and agreements hereinafter set forth, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

ARTICLE I
TRANSACTIONS

Section 1.1 Sale. The Company and the Socius hereby agree to consummate the Preferred Stock Exchange and the Debt Exchange. In furtherance of the foregoing, effective as of the Closing:

(a) Socius hereby waives the requirement that the Preferred Stock be held by Socius for one year prior to redemption by the Company;

(b) Socius hereby waives the Redemption Premiums owing to it pursuant to the Preferred Stock Agreement and/or the Certificate of Designation of Preferences, Rights and Limitations of Series F Preferred Stock (the "***Certificate of Designation***");

(c) Socius hereby waives the Dividend owed to it through the Closing pursuant to the Preferred Stock Agreement and/or the Certificate of Designation;

(d) The Company hereby waives any interest owed to it through the Closing under both the Warrant Note and the Preferred Note;

(e) The Company hereby cancels the Warrant Note and the Preferred Note;

(f) Socius hereby agrees to return all of the shares of Preferred Stock to the Company for cancellation; and

(g) The Company and Socius acknowledge that the Preferred Stock Exchange and Debt Exchange shall affect a release by the Company and Socius of all continuing rights each party holds, and all obligations owed to the other, under the Purchase Agreement; provided, however, that such release shall not apply to any rights or obligations arising from or related to any securities of the Company that Socius continues to own as of and/or after the date hereof.

Section 1.2 Closing. The closing of the transactions contemplated by this Agreement (the "***Closing***") shall be held at the offices of DLA Piper LLP (US), counsel to the Company, at 4365 Executive Drive, Suite 1100, San Diego, California 92121 on the date hereof (the "***Closing Date***"), or at such other time and place as the Company and Socius may agree either in writing or orally. At the Closing:

(a) Socius will deliver the Certificate representing the shares of Preferred Stock to the Company evidencing the Preferred Stock Exchange.

(b) The Company will cancel the Preferred Stock, will cancel the Warrant Note and the Preferred Note evidencing the Debt Exchange, and will deliver the cancelled Warrant Note and Preferred Note to Socius; and

(c) The other waivers, cancellations and releases set forth in Section 1.1 shall be effective.

ARTICLE II
REPRESENTATIONS AND WARRANTIES

Section 2.1 Representations and Warranties of the Company. The Company hereby represents and warrants to Socius as of the date hereof as follows:

(a) The Company has the requisite corporate power and authority to enter into this Agreement and to consummate the transactions contemplated by the Agreement and otherwise to carry out its obligations hereunder. The execution and delivery of the Agreement by the Company and the consummation by it of the transactions contemplated hereby have been duly authorized by all necessary action on the part of the Company and no further consent or action is required by the Company. The Agreement has been (or upon delivery will be) duly executed by the Company and, when delivered in accordance with the terms hereof, will constitute the valid and binding obligation of the Company enforceable against the Company in accordance with its terms, subject to applicable bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and similar laws affecting creditors' rights and remedies generally and general principles of equity.

(b) The execution, delivery and performance of the Agreement by the Company and the consummation by the Company of the transactions contemplated hereby do not and will not (i) conflict with or violate any provision of the Company's certificate of incorporation, as amended, or bylaws, or (ii) conflict with or violate the terms of any material agreement by which the Company is bound or to which any property or asset of the Company is bound or affected.

(c) The Company has full title to and ownership of the Warrant Note, the Preferred Note and all rights being waived, cancelled or released hereunder.

Section 2.2 Representations, Warranties and Covenants of Socius. Socius hereby represents and warrants to the Company as of the date hereof as follows:

(a) Socius has the requisite power and authority to enter into this Agreement, to consummate the transactions contemplated by this Agreement and otherwise to carry out its obligations hereunder. The execution and delivery of the Agreement by Socius and the consummation by it of the transactions contemplated hereby have been duly authorized by all necessary action on the part of Socius and no further consent or action is required by Socius. The Agreement has been (or upon delivery will be) duly executed by Socius and, when delivered in accordance with the terms hereof, will constitute the valid and binding obligation of Socius enforceable against Socius in accordance with its terms, subject to applicable bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and similar laws affecting creditors' rights and remedies generally and general principles of equity.

(b) The execution, delivery and performance of the Agreement by Socius and the consummation by Socius of the transactions contemplated hereby do not and will not (i) conflict with or violate any provision of Socius's organizational documents, or (ii) conflict with or violate the terms of any material agreement by which Socius is bound or to which any property or asset of Socius is bound or affected.

(c) Socius has full title to and ownership of the Preferred Stock and all rights being waived, cancelled or released hereunder.

ARTICLE III
MISCELLANEOUS

Section 3.1 **Entire Agreement**. This Agreement constitutes the entire agreement of the parties hereto with respect to the subject matter hereof and thereof and supersedes all prior agreements and undertakings, both written and oral, between or among the parties hereto with respect to the subject matter hereof and thereof.

Section 3.2 **Amendment**. This Agreement may not be amended or modified except by an instrument in writing signed by, or on behalf of, each party hereto.

Section 3.3 **No Third Party Beneficiaries**. This Agreement shall be binding upon and inure solely to the benefit of the parties hereto and their respective successors and permitted assigns and nothing herein, express or implied, is intended to or shall confer upon any other person any legal or equitable right, benefit or remedy of any nature whatsoever under or by reason of this Agreement.

Section 3.4 **Governing Law**. This Agreement shall be governed by, and construed in accordance with, the laws of the State of New York.

Section 3.5 **Counterparts**. This Agreement may be executed and delivered (including by facsimile or other electronic transmission) in one or more counterparts, and by the parties hereto in separate counterparts, each of which when executed shall be deemed to be an original, but all of which taken together shall constitute one and the same agreement. This Agreement may be executed by facsimile or other electronic transmission.

[Signatures on following page]

IN WITNESS WHEREOF, the parties hereto have executed this Exchange Agreement as of the date first written above.

COMPANY:

INTERNATIONAL STEM CELL CORPORATION

By: /s/ Ray Wood
Name: Ray Wood
Title: Chief Financial Officer

SOCIUS CG II, LTD.:

By: /s/ Terren Peizer
Name: Terren Peizer
Title: Managing Director

EXCHANGE AGREEMENT

THIS EXCHANGE AGREEMENT (this "***Agreement***") is made effective as of this 11th day of June, 2010, by and between Optimus Capital Partners, LLC, a Delaware limited liability company ("Optimus Capital", and its affiliate Optimus CG II, Ltd., a Cayman Islands exempted company ("Optimus CG" and, together with Optimus Capital, "***Optimus***"), and International Stem Cell Corporation, a Delaware corporation (the "***Company***").

WHEREAS, on June 30, 2009, Optimus Capital and the Company entered into a Preferred Stock Purchase Agreement (the "***Purchase Agreement***") pursuant to which Optimus Capital agreed to purchase, or cause its designee to purchase, from time to time, up to Five Hundred (500) shares of the Company's Series E Preferred Stock (the "***Preferred Stock***"), and Optimus CG received a warrant to purchase up to 7,848,837 shares of the Company's common stock, with the number of shares of common stock and the exercise price being subject to adjustment from time to time based on the market price for the shares of common stock at the time the Company sold shares of Preferred Stock (the "***Warrant***");

WHEREAS, the Preferred Stock accrues a dividend in shares of Series E Preferred Stock on a daily basis at a rate equal to 10% per annum from the date of issuance with the dividend being payable on the date the Preferred Stock is redeemed (the "***Dividend***");

WHEREAS, the Preferred Stock is redeemable commencing one year after its issuance, subject to payment of redemption premiums that start at 26% and decline to 0% after the Preferred Stock has been outstanding for four years (the "***Redemption Premiums***");

WHEREAS, from October 2009 through March 2010 the Company sold an aggregate of 441 shares of Preferred Stock to Optimus CG in 11 tranches and on 11 occasions Optimus CG exercised portions of the Warrant for a total purchase price of $4,410,750, all of which was paid by delivery to the Company of a series of secured notes accruing interest at 2% per annum (collectively, the "***Warrant Notes***");

WHEREAS, Optimus has offered to exchange the Preferred Stock and to waive all Dividends (collectively, the "***Preferred Stock Exchange***") in return for the cancellation of the Warrant Notes and the waiver of all interest on the Warrant Notes (collectively, the "***Debt Exchange***"), and the other terms set forth in this Agreement, and the Company desires to accept such offer; and

WHEREAS, Optimus and the Company, each being a willing party to this transaction and neither being under any compulsion to exchange the instruments, rights and benefits being exchanged pursuant to this Agreement, acknowledge that they are each aware of the relevant facts relating to the exchange (including, without limitation, (i) the differences between the interest rates on the Warrant Notes and the dividend rates on the Preferred Stock, (ii) the Redemption Premiums payable once the Preferred Stock is redeemable, (iii) the fact that the Preferred Stock is not yet redeemable, and (iv) the various benefits to each party under the contemplated exchange, which the parties have agreed offset the difference between the principal amount of the Warrant Notes and the liquidation preference of the Preferred Stock), and further acknowledge and agree that, in total, the instruments, rights and benefits being exchanged by each side are of equivalent value.

NOW, THEREFORE, in consideration of the mutual covenants and agreements hereinafter set forth, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

ARTICLE I
TRANSACTIONS

Section 1.1 Sale. The Company and the Optimus hereby agree to consummate the Preferred Stock Exchange and the Debt Exchange. In furtherance of the foregoing, effective as of the Closing:

(a) Optimus hereby waives the requirement that the Preferred Stock be held by Optimus for one year prior to redemption by the Company;

(b) Optimus hereby waives the Redemption Premiums owing to it pursuant to the Preferred Stock Agreement and/or the Certificate of Designation of Preferences, Rights and Limitations of Series E Preferred Stock (the "***Certificate of Designation***");

(c) Optimus hereby waives the Dividend owed to it through the Closing pursuant to the Preferred Stock Agreement and/or the Certificate of Designation;

(d) The Company hereby waives any interest owed to it through the Closing under all of the Warrant Notes;

(e) The Company hereby cancels each of the Warrant Notes;

(f) Optimus hereby agrees to return all of the shares of Preferred Stock to the Company for cancellation; and

(g) The Company and Optimus acknowledge that the Preferred Stock Exchange and Debt Exchange shall affect a release by the Company and Optimus of all continuing rights each party holds, and all obligations owed to the other, under the Purchase Agreement; provided, however, that such release shall not apply to any rights or obligations arising from or related to any securities of the Company that Optimus continues to own as of and/or after the date hereof.

Section 1.2 Closing. The closing of the transactions contemplated by this Agreement (the "***Closing***") shall be held at the offices of DLA Piper LLP (US), counsel to the Company, at 4365 Executive Drive, Suite 1100, San Diego, California 92121 on the date hereof (the "***Closing Date***"), or at such other time and place as the Company and Optimus may agree either in writing or orally. At the Closing:

(a) Optimus will deliver the Certificates representing the shares of Preferred Stock to the Company evidencing the Preferred Stock Exchange.

(b) The Company will cancel the Preferred Stock, will cancel the Warrant Notes evidencing the Debt Exchange, and will deliver the cancelled Warrant Notes to Optimus; and

(c) The other waivers, cancellations and releases set forth in Section 1.1 shall be effective.

ARTICLE II
REPRESENTATIONS AND WARRANTIES

Section 2.1 **Representations and Warranties of the Company**. The Company hereby represents and warrants to Optimus as of the date hereof as follows:

(a) The Company has the requisite corporate power and authority to enter into this Agreement and to consummate the transactions contemplated by the Agreement and otherwise to carry out its obligations hereunder. The execution and delivery of the Agreement by the Company and the consummation by it of the transactions contemplated hereby have been duly authorized by all necessary action on the part of the Company and no further consent or action is required by the Company. The Agreement has been (or upon delivery will be) duly executed by the Company and, when delivered in accordance with the terms hereof, will constitute the valid and binding obligation of the Company enforceable against the Company in accordance with its terms, subject to applicable bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and similar laws affecting creditors' rights and remedies generally and general principles of equity.

(b) The execution, delivery and performance of the Agreement by the Company and the consummation by the Company of the transactions contemplated hereby do not and will not (i) conflict with or violate any provision of the Company's certificate of incorporation, as amended, or bylaws, or (ii) conflict with or violate the terms of any material agreement by which the Company is bound or to which any property or asset of the Company is bound or affected.

(c) The Company has full title to and ownership of the Warrant Notes and all rights being waived, cancelled or released hereunder.

Section 2.2 **Representations, Warranties and Covenants of Optimus**. Optimus hereby represents and warrants to the Company as of the date hereof as follows:

(a) Optimus has the requisite power and authority to enter into this Agreement, to consummate the transactions contemplated by this Agreement and otherwise to carry out its obligations hereunder. The execution and delivery of the Agreement by Optimus and the consummation by it of the transactions contemplated hereby have been duly authorized by all necessary action on the part of Optimus and no further consent or action is required by Optimus. The Agreement has been (or upon delivery will be) duly executed by Optimus and, when delivered in accordance with the terms hereof, will constitute the valid and binding obligation of Optimus enforceable against Optimus in accordance with its terms, subject to applicable bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and similar laws affecting creditors' rights and remedies generally and general principles of equity.

(b) The execution, delivery and performance of the Agreement by Optimus and the consummation by Optimus of the transactions contemplated hereby do not and will not (i) conflict with or violate any provision of Optimus's organizational documents, or (ii) conflict with or violate the terms of any material agreement by which Optimus is bound or to which any property or asset of Optimus is bound or affected.

(c) Optimus has full title to and ownership of the Preferred Stock and all rights being waived, cancelled or released hereunder.

ARTICLE III
MISCELLANEOUS

Section 3.1 **Entire Agreement**. This Agreement constitutes the entire agreement of the parties hereto with respect to the subject matter hereof and thereof and supersedes all prior agreements and undertakings, both written and oral, between or among the parties hereto with respect to the subject matter hereof and thereof.

Section 3.2 **Amendment**. This Agreement may not be amended or modified except by an instrument in writing signed by, or on behalf of, each party hereto.

Section 3.3 **No Third Party Beneficiaries**. This Agreement shall be binding upon and inure solely to the benefit of the parties hereto and their respective successors and permitted assigns and nothing herein, express or implied, is intended to or shall confer upon any other person any legal or equitable right, benefit or remedy of any nature whatsoever under or by reason of this Agreement.

Section 3.4 **Governing Law**. This Agreement shall be governed by, and construed in accordance with, the laws of the State of New York.

Section 3.5 **Counterparts**. This Agreement may be executed and delivered (including by facsimile or other electronic transmission) in one or more counterparts, and by the parties hereto in separate counterparts, each of which when executed shall be deemed to be an original, but all of which taken together shall constitute one and the same agreement. This Agreement may be executed by facsimile or other electronic transmission.

[Signatures on following page]

IN WITNESS WHEREOF, the parties hereto have executed this Exchange Agreement as of the date first written above.

COMPANY:

INTERNATIONAL STEM CELL CORPORATION

By:	/s/ Ray Wood
Name:	Ray Wood
Title:	Chief Financial Officer

OPTIMUS CAPITAL PARTNERS, LLC:

By:	/s/ Terren Peizer
Name:	Terren Peizer
Title:	Managing Director

OPTIMUS CG II, LTD.:

By:	/s/ Terren Peizer
Name:	Terren Peizer
Title:	Managing Director

Exhibit 31.1

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

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

1. I have reviewed this quarterly report on Form 10-Q of International Stem Cell Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 6, 2010

By:
/s/ Andrey Semechkin
Andrey Semechkin
Chief Executive Officer

Exhibit 31.2

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

I, Ray Wood, Chief Financial Officer of International Stem Cell Corporation, certify that:

1. I have reviewed this quarterly report on Form 10-Q of International Stem Cell Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 6, 2010

By: /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 Quarterly Report on Form 10-Q (the "Report") of International Stem Cell Corporation (the "Company") for the six months ended June 30, 2010, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Andrey Semechkin, Chief Executive Officer of the Company, hereby certify pursuant to 18 U.S.C. Section 1350, that as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002:

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

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

Date: August 6, 2010

By:
/s/ Andrey Semechkin
Andrey Semechkin
Chief 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 Quarterly Report on Form 10-Q (the “Report”) of International Stem Cell Corporation (the “Company”) for the six months ended June 30, 2010, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Ray Wood, Chief Financial Officer of the Company, hereby certify pursuant to 18 U.S.C. Section 1350, that as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002:

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

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

Date: August 6, 2010

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