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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 September 30, 2010

Commission File Number: 0-51891

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

Delaware	**20-4494098**
(State or other jurisdiction of incorporation or organization)	(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 November 3, 2010 the Registrant had 72,456,463 shares of Common Stock outstanding.

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(A Development Stage Company)
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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

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

	September 30, 2010 (Unaudited)	December 31, 2009
Assets		
Cash and cash equivalents	$ 5,957,773	$ 726,829
Accounts receivable	184,795	130,988
Inventory	765,131	631,309
Prepaid assets	293,339	245,976
Total current assets	7,201,038	1,735,102
Property and equipment, net	1,304,714	1,209,509
Patent licenses, net	938,449	737,507
Deposits and other assets	49,411	22,383
Total assets	$ 9,493,612	$ 3,704,501
Liabilities and Stockholders' Equity (Deficit)		
Accounts payable	$ 698,717	$ 369,050
Accrued expenses	579,587	631,762
Advances	250,000	250,000
Related party payables	—	469,673
Warrants to purchase common stock	—	1,103,223
Total liabilities	1,528,304	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, 72,281,503 shares and 56,034,835 shares issued at September 30, 2010 and December 31, 2009, respectively		

	72,282	56,035
Preferred Stock, $.001 par value, 20,000,000 shares authorized, 2,800,043 shares and 3,000,043 shares issued at September 30, 2010 and December 31, 2009, respectively	2,800	3,000
Note receivable on Perpetual Preferred Stock	—	(2,708,988)
Additional paid-in capital	53,154,583	38,067,152
Deficit accumulated during the development stage	(45,264,357)	(36,569,694)
Total stockholders’ equity (deficit)	7,965,308	(1,152,495)
Total liabilities and stockholders’ equity (deficit)	$ 9,493,612	$ 3,704,501

See accompanying notes to the unaudited condensed consolidated financial statements.

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

(Unaudited)

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009	Inception (August 2001) through September 30, 2010
Revenues					
Product Sales	$ 348,984	$ 298,661	$ 1,062,728	$ 870,770	$ 2,593,413
Royalties and license	—	—	—	—	135,000
Total development expenses	348,984	298,661	1,062,728	870,770	2,728,413
Development expenses					
Cost of sales	149,573	191,466	510,279	741,807	1,501,110
Research and development	714,392	560,063	2,052,461	1,632,113	12,538,727
Marketing	22,486	126,046	447,480	389,566	1,986,472
General and administrative	2,402,675	1,479,349	5,811,496	3,856,728	22,063,604
Total development expenses	3,289,126	2,356,924	8,821,716	6,620,214	38,089,913
Loss from development activities	(2,940,142)	(2,058,263)	(7,758,988)	(5,749,444)	(35,361,500)
Other income (expense)					
Settlement with related company	—	—	—	—	(92,613)
Miscellaneous expense	(1,069)	(2,714)	(21,718)	(2,714)	(13,075)
Dividend income	1,124	137	27,123	230	92,363
Interest expense	—	(6,421)	(14,079)	(87,492)	(2,225,074)
Sublease income	2,100	2,100	5,625	6,300	51,854
Change in market value of warrants	—	408,256	319,741	(1,647,521)	(479,857)
Total other income (expense)	2,155	401,358	316,692	(1,731,197)	(2,666,402)
Loss before income taxes	(2,937,987)	(1,656,905)	(7,442,296)	(7,480,641)	(38,027,902)
Provision for income taxes					

	—	—	—	—	6,800
Net loss	$ (2,937,987)	$ (1,656,905)	$ (7,442,296)	$ (7,480,641)	$(38,034,702)
Deemed and paid dividend on preferred stock	14,300	1,000,000	1,252,367	2,480,000	7,229,655
Net loss attributable to common shareholders	$ (2,952,287)	$ (2,656,905)	$ (8,694,663)	$ (9,960,641)	$(45,264,357)
Net loss per share computation:					
Weighted average shares outstanding	71,907,000	43,871,924	67,187,905	48,165,382	
Net loss per share – Basic and Diluted	$ (0.04)	$ (0.06)	$ (0.13)	$ (0.21)	

See accompanying notes to the unaudited condensed consolidated financial statements.

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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 Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity	Members' Deficit
			Issued		Note Subscription on Perpetual				
	Shares	Amount	Shares	Amount					
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 contributions									1,110,000
Net loss for the year ended									(854,718)
Balance at December 31, 2004									(250,360)
Members contributions									780,000
Net loss for the year ended December 31, 2002									(1,385,745)
Balance at December 31, 2005									(856,105)
Members contributions									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			Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity	Members' Deficit
			Issued		Note Subscription on Perpetual				
	Shares	Amount	Shares	Amount					
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)

	Common Stock		Preferred Stock			Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity	Members' Deficit
			Issued						
	Shares	Amount	Shares	Amount	Note Subscription on Perpetual				
Dividend on preferred stock							(364,329)	(364,329)	
Net loss for the year ended December 31, 2009					(8,988)		(7,772,652)	(7,781,640)	
Balance at December 31, 2009	56,034,835	56,035	3,000,043	3,000	(2,708,988)	38,067,152	(36,569,694)	(1,152,495)	
Issuance of common stock									
For services	649,167	649				969,751		970,400	
From conversion of preferred stock	800,000	800	(200,000)	(200)		(600)			
From conversion of debt									
From exercise of warrants	4,181,115	4,181			(3,254,513)	4,413,931		1,163,599	
From cashless exercise of warrants	1,486,579	1,487				(1,487)			
For cash	9,129,807	9,130				8,826,419		8,835,549	
Issuance of preferred stock									
Stock-based compensation						1,524,269		1,524,269	
Swap out of notes receivable 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							(215,589)	(215,589)	
Change in warrant classification						804,971		804,971	
Net loss for the nine months ended September 30, 2010					(25,622)		(7,442,296)	(7,467,918)	
Balance, September 30, 2010	72,281,503	$72,282	2,800,043	$ 2,800	$ —	$53,154,583	$(45,264,357)	$ 7,965,308	

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

(Unaudited)

	Nine Months Ended September 31,		Inception (August 2001) through September 30, 2010
	2010	2009	
Net loss	$(7,442,296)	$(7,480,641)	$(38,034,702)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	203,816	128,747	862,236
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	1,545,758	450,609	4,347,594
Common stock issued for services	970,400	749,582	3,858,981
Amortization of Discount on Convertible Notes	—	67,227	1,080,962
Change in market value of warrants	(319,741)	1,647,521	479,857
Changes in operating assets and liabilities			
(Increase) decrease in accounts receivable	(53,807)	(43,034)	(184,795)
(Increase) decrease in inventory	(133,822)	(38,403)	(765,131)
(Increase) decrease in prepaid assets	(47,363)	(77,845)	(293,339)
(Increase) decrease in deposits and other assets	(27,028)	(351)	(49,411)
Increase (decrease) in accounts payable	329,667	366,899	698,717
Increase (decrease) in accrued liabilities	(52,175)	381,272	720,787
Increase (decrease) in related party payables	(469,673)	20,265	(164,504)
Net cash used in operating activities	(5,521,886)	(3,546,736)	(26,514,149)
Investing activities			

Purchases of property and equipment	(244,786)	(650,283)	(1,869,371)
Payments for patent licenses and trademarks	(255,177)	(117,504)	(1,236,027)
Net cash used in investing activities	(499,963)	(767,787)	(3,105,398)
Financing activities			
Members' contributions	—	—	2,685,000
Proceeds from issuance of common stock	8,835,549	1,319,231	22,084,729
Proceeds from issuance of preferred stock	2,410,750	3,000,000	12,260,750
Proceeds for issuance of convertible debt and loan payable	—	—	1,360,000
Proceeds from exercise of options and warrants	126,821	—	126,821
Issuance of convertible promissory note	—	—	2,099,552
Payment of promissory notes	—	—	(2,202,856)
Payment of loan payable	—	—	(625,000)
Payment of preferred stock dividend	(120,327)	—	(451,368)
Payment of offering costs	—	—	(1,760,308)
Net cash provided by financing activities	11,252,793	4,319,231	35,577,320
Net (decrease) increase in cash	5,230,944	4,708	5,957,773
Cash and cash equivalents, beginning of period	726,829	381,822	—
Cash and cash equivalents, end of period	$ 5,957,773	$ 386,530	$ 5,957,773
Supplemental disclosures of cash flow information:			
Cash paid for interest	$ 30,468	$ 88,327	$ 371,822

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	Nine Months Ended September 30, 2010	2009	Inception (August 2001 through September 30, 2010
Cash paid for income taxes	$ 800	$ 3,265	$ 11,148
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	$2,480,000	$ 6,683,025
Accrual of equity placement costs	$ —	$ 250,000	$ 250,000
Accrual 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
Payment of dividend through reduction of liabilities	$ 201,289	$ —	$ 201,289
Cumulative effect adjustment - warranty to purchase common stock	$ —	$ 301,413	$ 301,413
Conversion of preferred stock	$ 800	$ 1,400	$ 1,400

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, manufacturing and marketing human primary cells, human stem cells and reagents necessary to culture them. 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." which is a wholly-owned subsidiary of ISC. This new entity was created to develop, 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 $600,000 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

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. The unaudited condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation. In management's opinion, the accompanying financial statements reflect all adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation of the results for the interim periods presented.

Interim financial results are not necessarily indicative of results anticipated for the full year. These unaudited financial statements should be read in conjunction with the Company's audited financial statements and footnotes included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

The preparation of financial statements requires that management make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses, and related disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

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 $1,236,026 and $980,850 at September 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 nine months ended September 30, 2010 and 2009 amounted to $54,235 and $42,695, respectively, and are included as part of research and development expenses. 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 September 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 or the return has expired.

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 September 30, 2010.

	Total	Level 1	Level 2	Level 3
ASSETS:				
Cash equivalents	$5,791,425	$5,791,425	$ —	$ —
LIABILITIES:				
Warrants to purchase common stock	$ —	$ —	$ —	$ —

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 Agreements 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. 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 did not have a material 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.

In April 2010, the FASB issued Accounting Standards 2010-17, Revenue Recognition – Milestone Method (Topic 605): Milestone Method of Revenue Recognition. ASU 2010-17 codifies the consensus reached in EITF Issue No. 08-9, "Milestone Method of Revenue Recognition." The amendments to the Codification provide guidance on defining a milestone and determining when it may be appropriate to apply the milestone method of revenue recognition for research or development transactions. Consideration that is contingent on achievement of a milestone in its entirety may be recognized as revenue in the period in which the milestone is achieved only if the milestone is judged to meet certain criteria to be considered substantive. Milestones should be considered substantive in their entirety and may not be bifurcated. An arrangement may contain both substantive and non-substantive milestones, and each milestone should be evaluated individually to determine if it is substantive. ASU 2010-17 is effective on a prospective basis for milestones achieved in fiscal years, and interim periods within those years, beginning on or after June 15, 2010. Early adoption is permitted. If a vendor elects early adoption and the period of adoption is not the beginning of the entity's fiscal year, the entity should apply 2010-17 retrospectively from the beginning of the year of adoption. Vendors may also elect to adopt the amendments in this ASU retrospectively for all prior periods. The provisions of ASU 2010-17 did not 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 September 30, 2010, operating loss carryforwards of approximately $29,378,000, 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 nine months ended September 30, 2010 is approximately $3,808,000.

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.

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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 September 30, 2010, the Company did not have any cash in banks in excess of the FDIC insurance limits. Also, at September 30, 2010, the Company had $5,791,425 of cash in accounts which are under the Securities Investor Protection Corporation (SIPC). For December 31, 2009, the Company had no cash balances on deposit with the financial institutions in excess of the FDIC insurance limit. 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. At September 30, 2010, there were approximately 6,882,678 warrants, 6,663,136 vested stock options issued within the Company's 2006 and 2010 stock option plans as well as stock options issued outside the 2006 and 2010 stock option plans and 14,356,240 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 nine months ended September 30, 2010 and 2009 or the period from inception through September 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:

	September 30, 2010	December 31, 2009
Raw materials	$ 206,825	$ 133,192
Work in process	3,877	189,679
Finished goods	554,429	308,438
	$ 765,131	$ 631,309

3. Property and Equipment

Property and equipment consists of the following:

	September 30, 2010	December 31, 2009
Machinery and equipment	$ 710,231	$ 660,282
Computer equipment	222,257	196,665
Office equipment	84,058	72,307
Leasehold improvements	819,364	661,870
	1,835,910	1,591,124
Accumulated depreciation and amortization	(531,196)	(381,615)
	$ 1,304,714	$ 1,209,509

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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. 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:

	September 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. 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 permitted 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 contained 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 would have been 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 and released all liens against the Company's assets.

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 September 30, 2010, no revenues were realized from this agreement.

	September 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 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.

During 2006 ISC California issued 9,880,950 shares of common stock for cash at $1.00 per share for net proceeds of $8,334,515. Also, 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 of 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.

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.

During the nine months ended September 30, 2010, 400,000 of the Series A warrants were exercised for $100,000 and no B warrants were exercised. As of September 30, 2010, we had outstanding warrants to purchase an aggregate of 2,700,000 shares of common stock.

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.

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 during 2008.

During 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.

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 whereby 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 Optimus Capital Partners. Per the agreement, the Company was required to 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. The Company is and has been in compliance with all requirements of that 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 accrued on such shares of Series E Preferred. Following the first anniversary of the issuance date, the Company had the right 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 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.

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. The exchange was completed in June 2010 and is discussed in more detail below.

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 was entitled to determine the time and amount of Series F Preferred to be purchased by the Investor and the Company intended 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. The exchange was completed in June 2010 and is discussed in more detail below.

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 accrued interest at a rate of 2% per year and the Perpetual Preferred Stock accrued 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 the exchange transactions for the Series E and Series F Preferred stock, all of the company's obligations under the 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 were retired and the Company no longer held 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.

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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 September 30, 2010, operating loss carryforwards of approximately $29,378,000, 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 nine months ended September 30, 2010 is approximately $3,808,000.

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 nine months ended September 30, 2010 and year ended December 31, 2009 follows:

	September 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:

	September 30, 2010	December 31, 2009
Deferred tax assets (liabilities)		
Net operating loss carry forwards	$ 29,378,000	$ 10,106,000
Accrued expenses	579,000	632,000
Research and Development tax credit (Fed and St.)	239,000	184,000
Deferred tax assets	30,196,000	10,922,000
Valuation allowance	(30,196,000)	(10,922,000)
Net deferred tax assets	$ —	$ —

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

	September 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 outside the 2006 and 2010 option plans non-qualified stock options to purchase 11,049,593 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 the expected life of the option.

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. 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 and nine months ended September 30, 2010:

	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2010
Risk free interest rate	1.93%	1.92%
Dividend yield	0.0%	0.0%
Volatility factor of the expected market price of the Company's common stock	67.08%	69.29%
Weighted-average expected life of options	6.06 Years	5.66 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 nine months ended September 30, 2010 and 2009, $1,524,269 and $344,551 was recognized as stock-based compensation expense, respectively. Unrecognized compensation cost related to stock options as of September 30, 2010 was $5,989,207, which is expected to be recognized on a straight-line basis over a weighted average period of approximately 3.3 years.

Transactions involving stock options issued to employees, directors and consultants under the 2006 Plan, the 2010 Plan and outside the plans 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 September 30, 2010:

	Options Outstanding			Options Exercisable		
Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighed Average Exercise Price	Number Exercisable	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price
$0.22-$0.50	2,749,500	7.86	$ 0.44	1,346,200	7.77	$ 0.44
$0.51-$0.75	12,272,337	9.12	$ 0.61	2,130,237	9.13	$ 0.61
$0.76-$1.00	2,769,939	5.27	$ 1.00	2,639,939	5.20	$ 1.00
$0.76-$1.00	24,600	7.07	$ 1.15	15,600	7.07	$ 1.15
$1.26-$1.50	2,483,000	9.47	$ 1.31	283,160	7.39	$ 1.42
$1.51-$3.20	720,000	8.54	$ 2.04	248,000	7.37	$ 2.67
	21,019,376	8.47	$ 0.77	6,663,136	7.15	$ 0.84

	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	2,683,000	$ 1.34
Exercised	(465,700)	$ 0.80
Canceled/forfeited	(218,900)	$ 0.57
Outstanding at September 30, 2010	10,110,437	$ 0.92

	Number of Shares issued outside the Plan	Weighted Average Price Per Share
Outstanding at December 31, 2009	11,049,593	$ 0.64
Granted	—	$ —
Exercised	(111,905)	$ 0.95
Canceled/forfeited	(28,749)	$ 0.62
Outstanding at September 30, 2010	10,908,939	$ 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. 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%.

Also during 2008, in connection with the fund raising efforts of the Company, the Company issued two warrants to purchase shares of common stock with the purchase of one Series A Preferred Stock, where an additional 2,000,000 common stock warrants were outstanding and two warrants to purchase shares of common stock with the purchase of one Series B Preferred Stock, where an additional 1,100,000 common stock warrants were outstanding. As of September 30, 2010, only 400,000 warrants related to the series A was converted into 400,000 common shares.

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 September 30, 2010, are as follows:

	Amount
2010	$ 43,409
2011	86,478
2012	—
2013	—
2014	—
Total	$129,887

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 September 30, 2010, our product sales have continued to increase. We recognized $348,984 of product revenue for the three months ended September 30, 2010, compared to $298,661 for the three months ended September 30, 2009.

Product revenue recognized for the nine months ended September 30, 2010 was $1,062,728, compared to $870,770 for the nine months ended September 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. Revenues associated with these agreements were generated for the full nine months of 2010 compared to a partial year in 2009. Also, our sales and marketing teams continually implemented new strategies to increase our product revenue.

Cost of sales

Cost of sales continued to decrease as a percentage of sales. Cost of sales for the quarter ended September 30, 2010, were $149,573, compared to $191,466 for the quarter ended September 30, 2009. Cost of sales for the nine months ended September 30, 2010 were $510,279, compared to $741,807 for the nine months ended September 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 will continue to decrease and become more consistent as we build more consistent levels of producing product.

Research and Development

Research and development expenses were $714,392, for the three months ended September 30, 2010, an increase of $154,329, or 28%, compared to $560,063 for the three months ended September 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 nine months ended September 30, 2010 were $2,052,461, an increase of $420,348, or 26%, compared to $1,632,113 for the nine months ended September 30, 2009. The increase was primarily due to salary expenses related to additional research scientists and our increased research activities. Although we had an increase in research and development expenses, 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 $2,402,675 for the three months ended September 30, 2010, an increase of $923,326 or 62%, compared to $1,479,349 for the three months ended September 30, 2009. The primary reason for the increase relates to the additional headcount added during 2010 to support operations and expenses related to stock based compensation for options granted to senior management.

General and administrative expenses for the nine months ended September 30, 2010 were $5,811,496, an increase of $1,954,768, or 51%, compared to $3,856,728 for the same period ended September 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, expenses related to stock based compensation for options granted to senior management and other general corporate expenses.

Marketing Expense

Marketing expenses were $22,486 for the three months ended September 30, 2010, a decrease of $103,560, or 82%, compared to $126,046, for the three months ended September 30, 2009. The decrease related primarily to a one time reclassification of certain expenses into other income (expense) from sales and marketing. Taking the reclassification into consideration, marketing expenses remained relatively consistent, as 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 nine months ended September 30, 2010 were $447,480, an increase of $57,914, or 15% compared to $389,566 for the nine months ended September 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 September 30, 2010, we had an increase in cash of $5,230,944 for the nine months ended September 30, 2010, resulting from $11,252,793 of cash provided by our financing activities, $5,521,886 cash used in operating activities and $499,963 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 $5,521,886 for the nine months ended September 30, 2010 was primarily attributable to a net loss of $7,442,296. The adjustments to reconcile the net loss to net cash used in operating activities primarily include depreciation and amortization expense of $203,816, non-cash compensation expense of $1,545,758, change in market value of warrants of $319,741, stock and warrants issued for services of $970,400, an increase in accounts receivable of $53,807, an increase in inventory of $133,822, an increase in prepaid assets of $47,363, an increase in deposits and other assets of $27,028, an increase in accounts payable of $329,667, a decrease in accrued expenses of $52,175, 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 $499,963 for the nine months ended September 30, 2010 was primarily attributable to purchases of property and equipment of $244,786 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 $255,177 for the nine months ended September 30, 2010.

Financing Cash Flows

Net cash provided by financing activities of $11,252,793 for the nine months ended September 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 nine months was part of an existing agreement to raise five million dollars by issuing Series E Preferred Stock. During the nine 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 September 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 August 6, 2010, the Company issued (i) a total of 400,000 shares upon conversion of previously issued shares of preferred stock or warrants held by a total of one investor, , and (ii) a total of 109,167 shares of common stock issued for consideration from Investor Relations services. The shares of common stock issued in clauses (ii) 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.

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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).
10.2	Preferred Stock Purchase Agreement (incorporated by reference to Exhibit 10.2 of the Issuer's form 8-K filed May 5, 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.

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: November 8, 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 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: November 8, 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: November 8, 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 nine months ended September 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: November 8, 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 nine months ended September 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: November 8, 2010

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