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

FORM 10-K

☒ **ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2010

☐ **TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _____ to _____

Commission File No. 0-51891

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

Delaware	**20-4494098**
(State of other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**
5950 Priestly Court Carlsbad, CA	
(Address of principal executive offices)	**92008 (Zip Code)**

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

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

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

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

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

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

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

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☐ (Do not check if a smaller reporting company)	Smaller reporting company	☒

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

The aggregate market value of voting and non-voting common equity held by non-affiliates of the registrant was approximately $65,878,000 based upon the closing price of the common stock on June 30, 2010 on the OTC Bulletin Board. Shares of common stock held by each officer, director and holder of five percent or more of the outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of March 18, 2011 there were 75,689,728 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Information from the registrant's definitive Proxy Statement for its Annual Meeting of Stockholders to be held in 2011 is incorporated by reference into Part III of

this Form 10-K.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

PART I

ITEM 1. BUSINESS

Business Overview

International Stem Cell Corporation (ISCO) is a biotechnology company focused on therapeutic, biomedical and cosmeceutical product development with near-term revenue generating businesses and multiple long-term therapeutic opportunities.

Our products are based on multi-decade experience with human cell culture and a proprietary type of pluripotent stem cells, "human parthenogenetic stem cells" ("hpSCs"). Our hpSCs are comparable to human embryonic stem cells (hESCs) in that they have the potential to be differentiated into many different cells in the human body. However, the derivation of hpSCs does not require the use of fertilized eggs or the destruction of viable human embryos and they offer potential for creation of immune-matched cells and tissues that are less likely to be rejected following transplantation into hundreds of millions of people across ethnic groups. ISCO has facilities and manufacturing protocols that comply with the requirements of the US Food and Drug Administration ("FDA") and other regulatory authorities.

With respect to therapeutic research, ISCO focuses on applications where cell and tissue therapy is already proven but where there currently is an insufficient supply of safe and efficacious cells. Examples of that include hepatocytes for acute and chronic liver diseases, islet cells for treatment of insulin-dependent diabetes (derived from the same precursor cells as hepatocytes) and neuronal cells for treatment of Parkinson's disease and other neurodegenerative conditions. ISCO has made these programs a priority internally and for collaboration with external academic and corporate experts. Other examples include corneal and retinal cells and tissues that mostly target large and growing markets in Asia and the Latin countries. ISCO's strategy for these "cellular ophthalmology" programs is to establish third-party funding and conduct accelerated development in the aforementioned territories.

ISCO's wholly-owned subsidiary Lifeline Skin Care (LSC) develops and commercializes skin care products using ISCO's stem cell technologies. These products are not regulated as therapeutic products and can therefore be brought to market relatively quickly. Furthermore, marketing and sales can be conducted direct to the consumer via the internet as well as through channels such as plastic surgeons and dermatology clinics and spas, thus providing funds to help support ISCO's internal therapeutic development efforts.

ISCO's wholly-owned subsidiary Lifeline Cell Technology (LCT) develops, manufactures and commercializes human cell culture products for research use, manufacturing of clinical-grade human cells and therapeutic applications such as coating of artificial materials with human cells for accelerated surgical healing, pain reduction and other potential benefits. LCT's products are marketed and sold by LCT's internal staff, OEM partners and Lifeline brand distributors in Europe and Asia. LCT also provides important funds to help support ISCO's internal therapeutic development efforts.

Underpinning our research into the therapeutic properties of hpSC, ISCO plans to expand its collection of parthenogenetic stem cell lines by creating and banking new clinical-grade hpSC lines at its Oceanside facility. ISCO intends to create these new lines according to good tissue practices (GTP) and current good manufacturing practices (cGMP) and use them both as a source for ISCO's own internal development efforts and to generate revenue through licensing opportunities. ISCO is actively working with a small number of *in vitro* fertility (IVF) clinics in the southern California region and plans to enroll individuals who are willing to donate oocytes for research purposes to create new parthenogenetic stem cell lines.

According to the National Institutes of Health, stem cell research involves knowledge advancement for how tissues and organisms develop from a single cell and how healthy cells derived from a single precursor cell may replace damaged cells in adult organisms. Scientists also investigate the possibility of cell-based therapies to treat disease, an area referred to as "regenerative medicine". Today, donated organs and tissues are often used to replace ailing or destroyed tissue but the need for transplantable tissues and organs far exceeds the available supply. In regenerative medicine, stem cells are directed to differentiate into specific cell types as potentially renewable sources of replacement cells and tissues to treat a wide range of diseases.

Human pluripotent stem cells have the potential to become any tissue or cell of the human body. A number of technical, ethical and legal hurdles need to be overcome before cells and tissues derived from pluripotent stem cells may be used for cell, tissue or organ repair. To realize the promise of cell-based therapies for disease treatment, a number of aspects need to be addressed, including:

- Extensive stem cell proliferation to sustain sufficient quantities of stem cells.
- Differentiation into the desired cell type(s) for therapeutic use.
- Survival of the graft in the human recipient.
- Structural integration into the surrounding tissue after implantation.
- Appropriate cell function.
- Assurance that the implanted cells or tissues do not harm the recipient.

- Reduction or elimination of immune rejection, thus ensuring that the implanted tissue will survive and remain functional in the recipient.

- Feasibility of manufacture and delivery of sufficient numbers of clinical grade (regulatory-approved) cells and tissues to the point of care.

- Demonstrated cost-efficient medical care relative to alternatives, including small molecule and protein therapeutics, surgery and other treatment paradigms.

ISCO addresses these and other aspects in each of its programs and believes that our technology fundamentally may offer substantial clinical-commercial opportunity in the field of regenerative medicine. To this end ISCO engages internationally proven immunogeneticists, geneticists, ethicists, market analysts, regulatory experts, patent counsels and other experts to advance the hpSC technology, the collection of pluripotent stem cells and the therapeutic applications.

During 2007 and 2008, ISCO scientist published two seminal works in the peer reviewed journal "Cloning and Stem Cells" that announced and described the first intentional creation of human parthenogenetic stem cells. These papers form the basis of ISCO's technology and its intellectual property. The importance of this work was illustrated by Professor Sir Ian Wilmut, Director of the MRC Centre for Regenerative Medicine at the University of Edinburgh and best known as the leader of the research group that in 1996 first cloned a sheep ("Dolly") from an adult somatic cell who said "This study has used a novel approach to producing cells that may one day be used to treat large numbers of patients. While there is a great deal of discussion about the possibility of producing stem cells for each patient this approach to therapy is unrealistic because of the enormous costs involved. Rather it is likely that treatment of large numbers of patients by cell therapy will only be possible if methods are found using any one cell line to treat very large numbers of patients. This very exciting paper represents a significant step forward towards the use of such cells in cell therapy." Sir Wilmut went on to note, "Immune reaction is one of the most serious problems facing the development of stem cell therapy, and cell lines of this type may enable us to treat a large number of patients without immune rejection, offering an enormous practical advantage. Further research is required to confirm that the cells produced in this way are able to replace cells that have been lost in human degenerative disease." Over the last few years we have further deepened our scientific understanding and technical capabilities with respect to the manipulation of our parthenogenetic stem cells and how they can be differentiated into distinct lineages such as retinal pigment epithelial cells, hepatocyte-like cells and neural-progenitors as well as larger scale structures such as cornea-like tissue.

History

ISCO was incorporated in Delaware on June 7, 2005 under the name BTHC III, Inc. to effect the reincorporation of BTHC III, LLC, a Texas limited liability company, mandated by a plan of reorganization. Pursuant to the plan of reorganization, an aggregate of 500,000 shares of our common stock were issued to holders of administrative and tax claims and unsecured debt, of which 350,000 shares were issued to Halter Financial Group. The plan of reorganization required the consummation of a merger or acquisition prior to June 20, 2007. Until the Share Exchange Agreement described below, BTHC III, Inc. conducted no operations. In October 2006, BTHC III, Inc. affected a 4.42-for-one stock split with respect to the outstanding shares of common stock. After giving effect to the stock split and eliminating fractional shares, there were 2,209,993 shares of common stock outstanding.

On December 28, 2006, pursuant to a Share Exchange Agreement, BTHC III, Inc. issued 33,156,502 shares of common stock, representing approximately 93.7% of the common stock outstanding immediately after the transaction, to the shareholders of International Stem Cell Corporation, a California corporation ("ISC California"), in exchange for all outstanding stock of ISC California. As a result of this transaction, ISC California became wholly-owned by us. This transaction was accounted for as a reverse merger for accounting purposes. Consequently, the assets and liabilities and the historical operations that are reflected in our financial statements are those of ISC California and its subsidiary. On January 29, 2007, we changed our name to International Stem Cell Corporation and in connection therewith our trading symbol changed to ISCO.OB.

ISC California was incorporated in California in June 2006 for the purpose of restructuring the business of Lifeline Cell Technology, LLC, which was organized in California in August 2001. As a result of the restructuring, Lifeline became wholly-owned by ISC California. Lifeline Skin Care, Inc. (LSC) was formed in the State of California on June 5, 2009 and is a wholly-owned subsidiary of ISCO.

Our principal executive offices are located at 5950 Priestly, Carlsbad, CA 92008, and our telephone number is (760) 940-6383.

Frequently Asked Questions

What are Stem Cells?

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

What are Pluripotent Stem Cells?

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

What are Embryonic Stem Cells?

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

What are Adult Stem Cells?

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

Why are Embryonic Stem Cells Important?

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

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

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

What are Parthenogenetic Stem Cells and how are they different?

Parthenogenetic stem cells are pluripotent stem cells created from unfertilized human eggs through a “parthenogenesis” process. Parthenogenesis requires that an unfertilized human egg be “activated” by chemical, physical or other means. Activation results in a non-viable “parthenogenetic embryo” from which pluripotent parthenogenetic stem cell lines can be derived. The cell lines used by ISCO are human parthenogenetic stem cells. Currently International Stem Cell Corporation owns the largest published collection of human parthenogenetic stem cell lines. Our research is based on perfecting proprietary techniques for deriving stem cells through parthenogenesis that result in stem cell lines that have the same capacity to become all cells found in the human body (as with embryonic stem cells) yet do not require use or destruction of a viable human embryo. Furthermore, parthenogenetic stem cells can be produced in a simplified (“homozygous”) form that enables each line to be an immunological match for millions of people. We do not obtain stem cells from fetal tissue nor does our technology require the use of discarded frozen human embryos.

Why Not Use Stem Cells Derived from Adults?

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

Why is Stem Cell Research Controversial?

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

Is Stem Cell Research Banned in the US?

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

Why Not Use the Currently “Approved” Embryonic Stem Cells Lines?

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

Why Not use Adult Cells Reprogrammed to become Pluripotent Cells?

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

Ethical Issues

The use of embryonic stem cells derived from fertilized human eggs has created an ethical debate in the US and around the world. However, since no fertilized human eggs are used in creating our stem cells and no human embryo is being created, used or destroyed, we expect that our parthenogenetic stem cells will be more readily accepted in circumstances where there are ethical concerns with using traditional embryonic stem cells.

We also have licensed worldwide rights to use a technology known as Somatic Cell Nuclear Transfer ("SCNT") to create human stem cells. The President's Council on Bioethics, as reported in the publication "Reproduction and Responsibility—The Regulation of New Biotechnologies 2004", has agreed on a series of recommendations for the use of such technology. Countries such as the United Kingdom have made similar recommendations.

Our Technology

ISCO has developed a proprietary process based on parthenogenesis for the creation of a new type of stem cell that has shown to exhibit the pluripotency and proliferative benefits of embryonic stem cells yet avoid the use or destruction of fertilized human eggs or embryos. Furthermore, since parthenogenetic stem cells can be created with immunogenetically identical ("homozygous") chromosome pairs, each line has potential to be an immune match for millions of patients. If such cells were to be differentiated into functional mature cells they would theoretically be universally applicable across a wide range of medical conditions.

ISCO also holds licenses to three other technologies to create human pluripotent stem cells: SCNT technology (as mentioned previously); a technology that may be useful to create induced pluripotent stem cells ("iPS"); and "single blastomere technology" which uses a single cell obtained from a fertilized blastocyst to create an embryonic stem cell line. Each of these technologies have unique cell therapy applications and gives ISCO a broad base of technologies from which it can operate in the future.

Our Facilities

We have built the capacity to manufacture human cells for use in pre-clinical and clinical trials and ultimately for therapeutic use through the completion of our cGMP manufacturing laboratories in Oceanside California. These laboratories are unique and specifically designed for the derivation of clinical-grade parthenogenetic stem cell lines for our stem cell bank and their differentiated derivatives for future clinical trials.

Our Products

Therapeutic Product Candidates

Using our proprietary technologies and know-how, we are exploring and creating and a range of cell types that may be useful in therapeutic treatments such as:

- Liver cells ("hepatocytes") that may be used to treat a variety of congenital and acquired liver diseases. Using the same precursor, earlier-stage research efforts explore islet cells for potential treatment of insulin-dependent diabetes.
- Neuronal cells for potential treatment of Parkinson's disease and other central nervous system disorders.
- Corneal-like structures grown to clear, hollow spheres containing cells and three-dimensional structure similar to those found in normal human corneal tissue. Portions or all of these structures may be suitable for cornea transplantation in humans.
- Corneal cells for coating of contact lenses for the purpose of accelerated corneal healing.
- Retinal pigment epithelial ("RPE") cells and structures with potential to treat degenerative retinal diseases.

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

Skin Care Products

ISCO's research scientists developed two skin care products based on ISCO's stem cell technology – Defensive Day Serum and Recovery Night Serum. Defensive Serum contains sunscreen, along with unique stem cell-derived ingredients. The day serum not only protects the skin from the aging effects of harsh light, but it continues to nurture the skin's collagen and fibroblasts to give noticeably firmer, smoother, younger-looking skin. The Recovery Serum is a nighttime therapy that complements the Defensive Serum. The night serum nurtures the skin's collagen and elastin and contains ingredients to defend against damaging free radicals, to help build firmer, smoother, younger and healthier-looking skin.

Research Products

Lifeline subsidiary produces and sells over 130 human cell culture products. These products include frozen human "primary" cells and stem cells and the reagents (often called media) needed to grow, maintain and differentiate the cells. Lifeline frequently adds more products to its line. These human cell-based products are used domestically and internationally by research scientists in pharmaceutical, academic and government research organizations to study human disease and basic cell biology. Lifeline's products eliminate the need for scientists to create their own cells, media and reagents or attempt to adapt "off the shelf" products to match specific experimental needs and they are superior to using animals or non-human animal cells as research tools because they are more relevant to the study of human disease. Strict quality assurance provides a high level of consistency and standardization of these products. Many Lifeline products contain low amounts of animal products (or eliminate them altogether), allowing researchers to have better control of their experiments.

Often Lifeline's research customers use Lifeline's cell-based research products in their clinical research, eventually adapting them for therapeutic applications. If one of our research products is adopted by a successful producer of therapeutic cells, ISCO may become a supplier to the much larger therapeutic market through Lifeline's products. This is based on the fact that once regulatory product submissions are made to the FDA and similar authorities, the media and reagents used during development cannot be changed easily after approval. These uses of Lifeline's products bring opportunities to ISCO for future therapeutic products. Such is the case with Lifeline's Fibrolife® media, which CytoGraft (Novato, CA) is using as part of the process of creating their tissue engineered vascular grafts.

Lifeline products and applications include:

- Human skin cells and associated reagents (DermaLife®) for the study of skin disease, toxicology or wound healing.
- Human cells from the heart and blood vessels and associated reagents (VascuLife®), used by researchers to study cardiovascular disease and cancer.
- Line of neural stem cells and reagents including a product with the ability to produce neurons that can survive in low-oxygen and low glucose conditions, which is useful for the discovery of drugs for the treatment of stroke.
- Adult stem cells (called mesenchymal stem cells) and the reagents necessary to differentiate them into various tissues, including bone, cartilage and fat. These products are valuable for researchers in the emerging field of regenerative medicine.
- Human prostate cells and specialized medium (ProstaLife™) to study prostate disease including cancer.
- Human renal and bladder cells and associated media (RenaLife™) to study renal and bladder diseases.
- Human corneal cells and associated media (OccuLife™) for the study of corneal disease and as a model of toxicology for consumer product testing.

- An assortment of many other cell culture reagents and supplements for the growth, staining and freezing of human cells.

Each Lifeline cell product is quality tested for the expression of specific markers (to assure the cells are the correct type), proliferation rate, viability, morphology and absence of pathogens. Each cell system also contains associated donor information and all informed consent requirements are strictly followed.

Lifeline brand products are currently distributed domestically through Lifeline's direct sales force, in Europe through CellSystems GmbH. Lifeline has set up distribution contracts with distributors in Japan, South Korea, Taiwan, Singapore and India and is currently expanding into China. In addition, Lifeline manufactures cell culture products under OEM contracts with American Type Culture Collection (ATCC), Millipore Corporation and Life Technology (formerly known as Invitrogen Corporation).

Our Markets

Therapeutic Markets

Liver disease. According to the American Liver Foundation, one in ten persons is affected by liver disease and these numbers are on the rise (2007). Chronic liver disease and cirrhosis was the twelfth leading cause of total deaths in 2007 in the US (National Vital Statistics Reports). The only effective treatment currently available for people with liver failure is full or partial organ transplantation. Unfortunately, the demand for organs far exceeds the number of organs available. According to the United Network for Organ Sharing, there are currently around 16,853 persons on the waiting list for a liver transplant in the US (March 4, 2011). Liver cell transplantation has been used in early stage clinical trials to treat patients with liver failure and genetically caused metabolic defects. This therapy has proven to be especially useful as a "bridge" to keep patients alive until they can receive a whole liver transplant, as well as an alternative to whole-organ transplantation in specific cases.

Diabetes. Diabetes is becoming more common in the United States. From 1980 through 2008, the number of Americans with diabetes has more than tripled from 5.6 million to 18.1 million. Normally islet ß cells in the pancreas produce insulin to promote the uptake of glucose by cells in the body. Degeneration of pancreatic islet cells results in insufficient insulin in the bloodstream hence type 1 diabetes. While diabetics can be treated with insulin injections, this only provides intermittent glucose control. Transplantation of pancreatic islet cells from one person to another has been shown to relieve the suffering and side effects caused by current therapies. However, since each patient needs in the order of 500 million functional islet cells at any one time and the primary source of such cells is donation from other people, islet cell therapy is not practical today.

Parkinson's disease. Parkinson's disease (PD) is one of the most common neurodegenerative diseases and the most common movement disorder in the US. Around five million people suffer from the disease worldwide. 50,000-60,000 new cases of PD are diagnosed each year in the US. Most people who get Parkinson's are over 50 years of age; however, it could affect those who are younger. Currently, there is no effective treatment of PD.

Corneal disease. According to the World Health Organization, 4.9 million people worldwide suffer blindness from corneal scarring and vascularization while ocular trauma and corneal ulcerations affect close to two million people. All corneal blindness diseases may affect close to 10 million people in the world combined. The back log is particularly bad in Asia where there is tremendous shortage of cadaver-derived corneas for cultural and other reasons. For example, India has about four million corneally blind according to Dr. Narinder Mehra, Professor at the All India Institute of Medical Sciences ("AIIMS"). According to the He Eye System, around two million Chinese are in need of a cornea transplant.

Retinal diseases. Diseases involving retinal degeneration include age-related macular degeneration ("AMD") and retinitis pigmentosa ("RP"). These diseases are characterized by the death of critical photoreceptor cells called rods and cones. Photoreceptor death is due to an abnormality and/or to disruption or death of supportive cells called retinal pigment epithelial ("RPE") cells. According to a 2004 study on *Blindness and Blinding Diseases in the US* published by the University of Washington, approximately 13 million Americans have signs of AMD, over 10 million suffer visual loss and over 200,000 are legally blind from the disease. The occurrence of AMD increases with age; according to the same study, due to the aging population and other factors, approximately 6.3 million Americans are projected to develop AMD in 2030 compared to 1.7 million in 1995. In China, close to 20 million people suffer from AMD and 1.8 million from RP

Skin Care Market

Sales of anti-aging products continue to drive the US skin care market. In 2008 retail sales of anti-aging products increased 7.7% to $1.6 billion out of $8.3 billion in sales for total US skin care products. The US Professional Skin care market is divided in two segments: spas/salons which account for approximately 53% of the market and the physician-dispensed channel, accounting for approximately 25% of the market. Sales from these two segments totaled approximately $215 million in 2007.

Research Market

The research market for cell systems is made up of scientists performing basic and applied research in the biological sciences. Basic research involves the study of cell biology and biochemical pathways. Applied research involves drug discovery, vaccine development, clinical research and cell transplantation. The domestic market can be broken into three segments: (i) Academic researchers in universities and privately-funded research organizations; (ii) government institutions such as the National Institutes of

Health, the US Army, the US Environmental Protection Agency and others; and (iii) industrial organizations such as pharmaceutical companies and consumer product companies. It is estimated that the combined academic and government markets comprise approximately 40% of the total market and that the industrial segment comprises approximately 60%. We believe the following are the main drivers in the research market for commercial cell systems:

- The need for experimental human cells which are more predictive of human biology than are non-human cells or genetically modified cell lines or living non-human animals.
- The emerging field of stem-cell-based regenerative medicine and the increase in associated grant money to study stem cells is driving the market not only for stem cell products but also for cell culture products in general.
- The desire to lower the cost of drug development in the pharmaceutical industry. We believe that human cell systems may provide a platform for screening toxic drugs early in the development process, thus avoiding late stage failures in clinical trials and reducing costs.
- The need to eliminate animal products in research reagents that may contaminate future therapeutic products.
- The need for experimental control. Serum-free defined media provides the benefit of experimental control because there are fewer undefined components.
- The need for consistency in experiments that can be given by quality controlled products.
- The need to eliminate in-house formulating of media, obtain human tissue or perform cell isolation.
- The need to reduce animal testing in the consumer products industry.

The global market for human cell systems for use in basic research exceeds several hundred million dollars annually with a continuing anticipated growth rate of between 10% and 20%.

Intellectual Property

Patents

In 2010 ISCO was granted a US patent covering our proprietary technology to create heterozygous stem cells without the use of fertilized eggs or transferred DNA. Composition of matter patents for the same are pending. We have pending patents covering homozygous parthenogenetic stem cells that can be immune matched to millions of persons and methods for deriving them. Other internally generated patents include patents on methods to differentiate stem cells and produce three dimensional corneal tissue constructs. In addition, we have obtained exclusive worldwide licenses to a portfolio of patents and patent applications from Advanced Cell Technologies, Inc. (“ACTC”).

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

We have protected our research products and branding through both patents and trademarks. Lifeline Skin Care has filed patent applications covering its proprietary formulations and methods of using stem cells to create skin care products. Lifeline Cell Technology has patents pending on its unique packaging for research products. ISCO has registered trademarks on its company name, logo and various product names to protect its branding investment. Lifeline Cell Technology’s reagent formulations are protected as trade secrets.

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

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

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

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

The first ACTC license, covers patent rights and technology that are relevant to:

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

The second ACTC license, covers patent rights and technology that are relevant to:

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

The third ACTC license, covers patent rights and technology relevant to the research, development, manufacture and sale of human cells for cell therapy in the treatment of therapeutic and diagnostic use in the treatment of human diabetes and liver diseases, and retinal diseases and retinal degenerative diseases.

Research Agreements

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

We have entered into a sponsored research agreements with the University of California at Irvine ("UCI") and have established research collaborations with: Cedars Sinai Medical Center (Los Angeles); The Scripps Research Institute (La Jolla); the University of Wuerzburg; Wuerzburg Germany; and the Sankara Nethralaya Hospital (Chennai, India). We have also set up collaborations with Absorption Systems (Exton, PA) to study and advance various aspects of our technology. We are in frequent negotiations to develop collaborative research agreements with additional domestic and international research organizations from both the public and private sector. These agreements allow us to team up with nationally and internationally known research scientists to study stem cell technologies developed or licensed by ISC for possible use in therapeutic or research fields. Dr. Hans Keirstead at UCI is working with our proprietary stem cells on the further development of retinal pigment epithelial cells to treat macular degeneration and retinitis pigmentosa. Dr. Jeffrey Fair at Cedars Sinai is working with us on the creation of the stem cell – based therapy to treat liver

diseases and Dr. Jeanne Loring at The Scripps Research Institute is focused on characterizing parthenogenetic stem cells. Dr. Mueller at Werzburg University is studying the derivation of human neurons from parthenogenetic stem cells and Dr. Krishnakumar at Sankara Nethralaya Hospital is studying how our corneal tissue construct can be used in transplantation therapy for corneal-caused vision loss. In addition to the sponsored research agreements and collaborations mentioned above, we provide our stem cell lines to researchers at many universities and other research facilities. Ordinarily, the stem cell lines are provided without charge, but we retain the right to either an exclusive or non-exclusive right to use any technology that may be developed that is necessary in order for us to make therapeutic products based on the research that uses our cells.

Competition

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

Some of our primary competitors in the development of stem cell therapies are Geron Corporation, Genzyme Corporation, StemCell, Advanced Cell Technologies, Aastrom Biosciences and ViaCyte some of which have substantially greater resources and experience than we.

Our primary competitors in the skin care market are Obagi, SkinCeuticals, SkinMedica, Murad, Dr. Brandt and Allergan.

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

Sales and Marketing

To date, sales of our research products have been derived primarily through our in-house sales force and via OEM contracts with American Tissue Culture Collection (“ATCC”), Millipore, Life Technology (formerly Invitrogen) and distribution contracts with our European distributor CellSystems Biotechnologies Vertrieb GmbH. We anticipate increased sales in 2011 through our newly established distributors in Asia and India.

Sales of LSC’s products commenced in mid-November 2010 in a combination of internet-based sales from LSC’s own web site and in a marketing and sales collaboration with John Mauldin.

Government Regulation

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

We have made extensive progress in obtaining the necessary regulatory approvals of research protocols, informed consent documents and donor protection procedures to obtain oocytes in the US for the production of our parthenogenetic stem cell bank. These approvals include: federally mandated Internal Review Board (IRB) and State of California required Stem Cell Research Oversight (SCRO) committee.

Currently the US government, though NIH appropriations restrictions, prohibits the use of federal funds in research involving parthenogenetic stem cells. Since we can’t receive federal funds for our stem cell research, we have decided to work with various foundations who are involved with stem cell research.

FDA Approval Process

Prior to commencement of clinical studies involving humans, preclinical testing of new pharmaceutical products is generally conducted on animals in the laboratory to evaluate the potential efficacy and safety of the product candidate. The results of these studies are submitted to the FDA as a part of an Investigational New Drug (“IND”) application, which must become effective before clinical testing in humans can begin. Typically, human clinical evaluation involves a time-consuming and costly three-phase process. In Phase 1, clinical trials are conducted with animal tests to establish safety followed with a small number of people to further assess

safety and to evaluate the pattern of drug distribution and metabolism within the body. In Phase 2, clinical trials are conducted with groups of patients afflicted with a specific disease in order to determine preliminary efficacy, possible dosages and expanded evidence of safety. In some cases, an initial trial is conducted in diseased patients to assess both preliminary efficacy and preliminary safety and patterns of drug metabolism and distribution, in which case it is referred to as a Phase 1-2 trial. In Phase 3, large-scale, multi-center, comparative trials are conducted with patients afflicted with a target disease in order to provide enough data to demonstrate the efficacy and safety required by the FDA. The FDA closely monitors the progress of each of the three phases of clinical testing and may, at its discretion, re-evaluate, alter, suspend or terminate the testing based upon the data which have been accumulated to that point and its assessment of the risk/benefit ratio to the patient. Monitoring of all aspects of the study to minimize risks is a continuing process. All adverse events must be reported to the FDA.

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

European and Other Regulatory Approval

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

Other Regulations

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

Other Regulations for LSC

The Federal Food, Drug and Cosmetic Act (FD&C Act) and the Fair Packaging and Labeling Act (FPLA) provide the regulatory framework for selling cosmetics. The FD&C Act ensure that the products are not injurious to users under normal conditions of use prescribed in the labels, or under conditions of use that are customary and usual. The FPLA insures that the labeling is not false or misleading and includes all relevant information in a prominent and conspicuous manner.

Safety testing of the products is performed by an independent third party testing organization.

Employees

In addition to our six executive officers, we utilize the services of 35 full-time staff members.

Item 1A. RISK FACTORS

You should carefully consider the risks described below as well as other information provided to you in this document, including information in the section of this document entitled "Forward Looking Statements." If any of the following risks actually occur, our business, financial condition or results of operations could be materially adversely affected, the value of our common stock could decline, and you may lose all or part of your investment.

Risks Related to Our Business

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

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

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

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

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

We need to obtain significant additional capital resources in order to develop products. Our current burn rate is approximately $600,000 per month excluding capital expenditures and we have been funding this through private and public equity financings, as required. We believe that our existing cash and cash equivalents, together with the cash that we expect to generate from operations and that is available through our agreement with Aspire Capital, will be sufficient to meet our anticipated cash needs to enable us to conduct our business substantially as currently conducted through December 31, 2011. However, if such financing is not sufficient and additional financing is not available or available only on terms that are detrimental to the long-term survival of the company, it could have a major adverse effect on our ability to continue to function. The timing and degree of any future capital requirements will depend on many factors, including:

- the accuracy of the assumptions underlying our estimates for capital needs in 2011 and beyond;
- scientific progress in our research and development programs;
- the magnitude and scope of our research and development programs and our ability to establish, enforce and maintain strategic arrangements for research, development, clinical testing, manufacturing and marketing;
- our progress with preclinical development and clinical trials;
- the time and costs involved in obtaining regulatory approvals;
- the costs involved in preparing, filing, prosecuting, maintaining, defending and enforcing patent claims; and
- the number and type of product candidates that we pursue.

Additional financing through strategic collaborations, public or private equity financings or other financing sources may not be available on acceptable terms, or at all. Additional equity financing could result in significant dilution to our stockholders. Further, if additional funds are obtained through arrangements with collaborative partners, these arrangements may require us to relinquish rights to some of our technologies, product candidates or products that we would otherwise seek to develop and commercialize on our own. If sufficient capital is not available, we may be required to delay, reduce the scope of or eliminate one or more of our research or product development initiatives, any of which could have a material adverse affect on our financial condition or business prospects.

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

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

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

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

Risk factors relating to skincare products

Government restrictions on the use of stem cell extracts in cosmetic products. Users of our products could experience adverse effects resulting in increased FDA oversight. Our Competition from other entities selling anti-aging products containing stem cell derivative or stem cell technology could erode the market share for our products. We could experience a disruption to the supply chain material used in the production, thus impacting manufacturing capacity. We may experience manufacturing issues due to resource constraints or contamination of our products during manufacturing.

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

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

also aware of a number of patent applications and patents claiming use of stem cells and other modified cells to treat disease, disorder or injury.

If third party patents or patent applications contain claims infringed by either our licensed technology or other technology required to make and use our potential products and such claims are ultimately determined to be valid, we might not be able to obtain licenses to these patents at a reasonable cost, if at all, or be able to develop or obtain alternative technology. If we are unable to obtain such

licenses at a reasonable cost, we may not be able to develop some products commercially. We may be required to defend ourselves in court against allegations of infringement of third party patents. Patent litigation is very expensive and could consume substantial resources and create significant uncertainties. An adverse outcome in such a suit could subject us to significant liabilities to third parties, require disputed rights to be licensed from third parties, or require us to cease using such technology.

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

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

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

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

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

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

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

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

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

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

Federal law no longer restricts as much as it once did the use of federal funds for human embryonic cell research, commonly referred to as hES cell research. However, federal law does prohibit federal funding for creation of parthenogenetic stem cells. Our operations may also be restricted by future legislative or administrative efforts by politicians or groups opposed to the development of hES cell technology, parthenogenetic cell technology or nuclear transfer technology. Further, future legislative or administrative restrictions could, directly or indirectly, delay, limit or prevent the use of hES technology, parthenogenetic technology, or nuclear transfer technology, the use of human embryonic material, or the sale, manufacture or use of products or services derived from nuclear transfer technology or hES or parthenogenetic technology.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Although our primary focus relates to intellectual property we have developed internally, some of the patents we utilize are licensed to us by Advanced Cell Technology, which has licensed some of these from other parties, including the University of Massachusetts. These licenses are subject to termination under certain circumstances (including, for example, our failure to make minimum royalty payments or to timely achieve development and commercialization benchmarks). The loss of any of such licenses, or the conversion of such licenses to non-exclusive licenses, could harm our operations and/or enhance the prospects of our competitors.

Although our licenses with Advanced Cell Technology allow us to cure any defaults under the underlying licenses to them and to take over the patents and patents pending in the event of default by Advanced Cell Technology, the cost of such remedies could be significant and we might be unable to adequately maintain these patent positions. If so, such inability could have a material adverse affect on our business. Some of these licenses also contain restrictions (*e.g.*, limitations on our ability to grant sublicenses) that could materially interfere with our ability to generate revenue through the licensing or sale to third parties of important and valuable technologies that we have, for strategic reasons, elected not to pursue directly. In the future we may require further licenses to complete and/or commercialize our proposed products. We may not be able to acquire any such licenses on a commercially viable basis.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Risks Related to the Securities Markets and Our Capital Structure

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

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

- clinical trial results;
- the amount of cash resources and such company’s ability to obtain additional funding;
- announcements of research activities, business developments, technological innovations or new products by competitors;

- entering into or terminating strategic relationships;
- changes in government regulation;
- disputes concerning patents or proprietary rights;
- changes in our revenues or expense levels;
- public concern regarding the safety, efficacy or other aspects of the products or methodologies we are developing;
- reports by securities analysts;
- activities of various interest groups or organizations;
- media coverage; and
- status of the investment markets. This market volatility, as well as general domestic or international economic, market and political conditions, could materially and adversely affect the market price of our common stock.

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

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

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

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

In addition, the market price of our common stock could be subject to wide fluctuations in response to:

- quarterly variations in our revenues and operating expenses;
- announcements of new products or services by us;
- fluctuations in interest rates;

- significant sales of our common stock;
- the operating and stock price performance of other companies that investors may deem comparable to us; and
- news reports relating to trends in our markets or general economic conditions.

Shares eligible for future sale may adversely affect the market.

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

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

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

We will need additional capital in the future. If additional capital is not available, we may not be able to continue to operate our business pursuant to our business plan or we may have to discontinue our operations entirely.

During 2010, we used a significant amount of cash to finance the continued development and testing of our product candidates. If we continue to use cash at this rate we will need significant additional financing, which we may seek to raise through, among other things, public and private equity offerings and debt financing. Any equity financings will likely be dilutive to existing stockholders, and any debt financings will likely involve covenants restricting our business activities. Additional financing may not be available on acceptable terms, or at all.

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

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

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

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

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None

ITEM 2. PROPERTIES

We have established our primary research facility in 8,215 square feet of leased office and laboratory space in Oceanside, California. Our lease for this facility expires in August 2011, with a five-year option to renew at our discretion. Our current base rent is $7,859 per month. The facility has leasehold improvements which include cGMP (current Good Manufacturing Practices) level clean rooms designed for the derivation of clinical-grade stem cells and their differentiated derivatives, research laboratories for our stem cell differentiation studies and segregated rooms for biohazard control and containment of human donor tissue. The cGMP clean rooms and the associated quality systems provide a "pilot manufacturing laboratory" that we believe will be uniquely suited for the creation, culture and differentiation of parthenogenetic stem cells for early stage clinical trials. We believe that this facility is well suited to meet our research, development and pre-clinical and clinical therapeutic production needs but we will need larger cGMP manufacturing laboratories should any one of our therapeutic cells move to larger clinical trials or full-scale therapeutic manufacture.

In addition to the primary research facility lease, we entered into a new lease with S Real Estate Holding LLC to allow the Company to expand into new corporate offices located at 5950 Priestly Drive, Carlsbad, California. The new building will be used for administrative purposes, but could also be used for research and development purposes if such space is needed in the future. The lease covers approximately 4,653 square feet, which is to be occupied on or about March 1, 2011. The lease expires on February 29, 2016, subject to the Company's right to extend the term for up to five additional years. The Company will begin paying rent once the Company occupies the facilities, at an initial rate of $5,118 per month. The monthly base rent will increase by 3% annually on the anniversary date of the agreement. The Company is also obligated to pay a portion of the utilities for the building and increases in property tax and insurance.

We utilized during 2010 a 3,240 square foot laboratory in Walkersville, Maryland. Our lease for this facility expired in March 2011, with a one-year renewal option, which we have decided not to exercise the option, but instead move into a new manufacturing facility. Our base rent in the new facilities will be $5,794 per month for the first year, increasing each of the next five years, with an option for an additional five years. These new facilities are located in Fredrick, Maryland and are used for laboratory and administration purposes. The laboratory is being used to develop and manufacture our research products and the administration facility will be used for sales and marketing and general administration purposes. Our manufacturing laboratory space has clean rooms and is fitted with the necessary water purification, refrigeration, labeling equipment and standard manufacturing equipment to manufacture, package, store and distribute media products. There is also a quality control and cell culture laboratory outfitted with the necessary cell isolation equipment, incubators, microscopes and standard cell culture equipment necessary to isolate and culture cells and conduct quality control tests to produce superior cell culture products.

ITEM 3. LEGAL PROCEEDINGS.

None.

ITEM 4. RESERVED.

PART II

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

Market Information

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

As of March 18, 2011, we had 75,689,728, shares of common stock outstanding, and approximately xxx holders of record of our common stock, and we had 2,800,243 shares of preferred stock outstanding, and approximately 9 holders of record of our preferred stock, with 2,800,043 shares of preferred stock being convertible into 27,086,800 shares of common stock.

Our common stock started trading on OTC Bulletin Board in December 2006, as we went public through a reverse merger at that time. The quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not reflect actual transactions. The high and low sales prices of our common stock, as reported by OTC Bulletin Board for each quarter during fiscal years 2009 and 2010, are reported below:

	Market Price	
	High	Low
Fiscal Year 2010		
First Quarter	$2.74	$0.55
Second Quarter	$2.36	$1.03
Third Quarter	$1.37	$0.95
Fourth Quarter	$2.29	$1.05
Fiscal Year 2009		
First Quarter	$0.85	$0.47
Second Quarter	$1.04	$0.65
Third Quarter	$1.40	$0.40
Fourth Quarter	$0.63	$0.18

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

Recent Sales of Unregistered Securities

During the last quarter of 2010, , the Company issued (i) a total of 1,274,571 shares upon conversion of previously issued warrants held by a total of seven investors, (ii) a total of 100,000 shares of common stock issued for consideration from Investor Relations services and (iii) 833,333 shares were sold in a private placement transaction to accredited investors. The shares of common stock issued in clauses (ii) and (iii) were offered and sold in private placement transactions made in reliance upon exemptions from registration pursuant to Section 4(2) of the Securities Act of 1933. The shares of common stock issued in clause (i) were sold in exchange for previously issued securities in transactions exempt from registration pursuant to Section 3(a)(9) of the Securities Act.

Equity Compensation Plan Information

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders:			
2006 Equity Participation Plan	8,102,037	$ 0.82	7,149,163
Equity compensation plans approved by security holders:			
2010 Equity Participation Plan	2,159,100	$ 1.29	15,840.900
Equity compensation plans not approved by security holders	11,049,593	$ 0.64	—
Total	21,059,530		22,990,063

ITEM 6. SELECTED FINANCIAL DATA

Not required.

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

The following discussion of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes and other financial information included elsewhere in this Annual Report on Form 10-K. The discussion contains forward-looking statements based upon current expectations that involve risks and uncertainties, such as our plans, expectations and intentions. Our actual results may differ significantly from management's expectations. This discussion should not be construed to imply that the results discussed herein will necessarily continue into the future, or that any conclusion reached herein will necessarily be indicative of actual operating results in the future. Such discussion represents only the best present assessment by our management.

Business Overview

We are a biotechnology company focused on therapeutic, biomedical and cosmeceutical product development with near-term revenue generating businesses and multiple long-term therapeutic opportunities.

Our products are based on multi-decade experience with human cell culture and a proprietary type of pluripotent stem cells, "human parthenogenetic stem cells" ("hpSCs"). Our hpSCs are comparable to human embryonic stem cells (hESCs) in that they have the potential to be differentiated into many different cells in the human body. However, the derivation of hpSCs does not require the use of fertilized eggs or the destruction of viable human embryos and they offer potential for creation of immune-matched cells and tissues that are less likely to be rejected following transplantation into hundreds of millions of people across ethnic groups. ISCO has facilities and manufacturing protocols that comply with the requirements of the US Food and Drug Administration ("FDA") and other regulatory authorities.

With respect to therapeutic research, ISCO focuses on applications where cell and tissue therapy is already proven but where there currently is insufficient supply of safe and efficacious cells. Examples of that include hepatocytes for acute and chronic liver diseases, islet cells for treatment of insulin-dependent diabetes (derived from the same precursor as hepatocytes) and neuronal cells for treatment of Parkinson's disease and other neurodegenerative conditions. ISCO has made these programs a priority internally and for collaboration with external academic and corporate experts. Other examples include corneal and retinal cells and tissues that mostly target large and growing markets in Asia and the Latin countries. ISCO's strategy for these "cellular ophthalmology" programs is to establish third-party funding and conduct accelerated development in the aforementioned territories.

ISCO's wholly-owned subsidiary Lifeline Skin Care (LSC) develops and commercializes skin care products using ISCO's stem cell technologies. These products are not regulated as therapeutic products and can therefore be brought to market relatively quickly. Furthermore, marketing and sales can be conducted direct to the consumer via the internet as well as channels such as dermatology clinics, and spas, thus providing important revenue towards ISCO's internal therapeutic development.

ISCO's wholly-owned subsidiary Lifeline Cell Technology (LCT) develops, manufactures and commercializes human cell culture products for research use, manufacturing of clinical-grade human cells and therapeutic applications such as coating of artificial

materials with human cells for accelerated surgical healing, pain reduction, etc. LCT's products are marketed and sold by LCT's internal staff, OEM partners and Lifeline brand distributors in Europe and Asia. This also provides important revenue towards ISCO's internal therapeutic development.

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

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

ISC California was incorporated in California in June 2006 for the purpose of restructuring the business of Lifeline Cell Technology, LLC, which was organized in California in August 2001. As a result of the restructuring, Lifeline became wholly-owned by ISC California, which in turn is wholly-owned by us. Lifeline Cell Technology is responsible for developing, manufacturing and distributing all of its products.

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

Results of Operations

Year Ended December 31, 2010 Compared to Year Ended December 31, 2009

Revenues

We are still considered a development stage company and as such have generated nominal revenues. For the year ended December 31, 2010, our product sales have continued to increase. For the year ended 2010, we have recognized revenue from product sales of Lifeline Cell Technology and Lifeline SkinCare. We have recognized a total of $1,568,480 in product revenues for the year ended December 31, 2010, compared to $1,121,164 for the year ended December 31, 2009. The increase in product sales is due to our strategic marketing efforts on advertising and continued efforts by our sales and marketing team to promote and develop new products and sales leads, as well as innovative concepts implemented from our marketing consultants to promote our products. Additionally, the collaboration agreements executed during 2009 to provide stem cells and reagents to work with stem cells have started to create revenue opportunities.

Cost of Sales

Cost of sales for the year ended December 31, 2010 were $724,641 or 46% of sales, compared to $789,705 or 70% of sales for the year ended December 31, 2009. Cost of sales included, salaries related to manufacturing, third party manufacturing costs, raw materials, general laboratory supplies and an allocation of overhead. In addition to these costs, we recorded inventory adjustments of approximately $181,500 for 2009 and approximately $2,300 for 2010. The inventory adjustment related to a physical inventory and revaluation of inventory costs. The reason for the decrease in cost of sales compared to sales for 2010, compared to 2009, is primarily due to a reduction of labor and material costs caused by manufacturing efficiencies. As we continue to 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 a consistent level of production.

Research and Development

Research and development expenses were $3,374,012 for the year ended December 31, 2010, an increase of $1,209,562, or 56%, compared to $2,164,450 for the same period in 2009. Research and development expenses increased primarily due to increased R&D activities on various therapeutic research projects, as well as product research activities from Lifeline Cell Technology and Lifeline SkinCare. As part of our research and development efforts, we hired additional research staff and consultants, which is the majority of our increased expenses. Additionally, as our R&D activities increased and with the additional staff, our R&D lab expenses increased. Although we have increased 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 research labs located in Oceanside, California and Walkersville, Maryland.

R&D operations consisted primarily of the development of differentiation techniques for retinal, corneal and definitive endoderm cells, development of additional stem cell lines through parthenogenesis, the development of new techniques of parthenogenesis and the development of research products for sale.

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

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

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

Marketing Expense

Marketing expenses for the year ended December 31, 2010 were $860,157, an increase of $333,516, or 63%, compared to $526,641 for 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.

Our primary marketing expenses for the year ended 2010, related to our professional sales representatives, sales literature, development and placement of print ads for trade journals, trade shows and marketing consultants.

General and Administrative Expenses

General and administrative expenses for the year ended December 31, 2010 were $7,071,714, an increase of $2,232,417, or 46%, compared to $4,839,297 for the same period in 2009. Part of the increase can be attributed to our fund raising efforts during 2010, including an S-1 that was originally filed in January 2010 and another S-1 that was filed late in 2010, expenses related to stock based compensation for options granted to senior management and other general corporate expenses.

Liquidity and Capital Resources

At December 31, 2010, our cash and cash equivalents totaled $5,782,027. Overall, we had an increase in cash of $5,055,198 for the year ended December 31, 2010 resulting from $7,056,234 cash used in operating activities and $624,118 used in investment activities, offset by $12,735,550 of cash provided by our financing activities. The funds generated from financing activities during 2010 were used mainly to support our operating losses.

Operating Cash Flows

Net cash used in operating activities of $7,056,234 for the year end December 31, 2010 was primarily attributable to a net loss of $9,902,698. The adjustments to reconcile the net loss to net cash used in operating activities include depreciation and amortization expense of $289,092, non-cash compensation expense of $3,174,286, change in market value of warrants of $319,741, interest on notes receivable of $25,622, increase in accounts receivable of $607,518, increase in inventory of $239,774, decrease in prepaid assets of $17,638, increase in deposits of $17,429, an increase in accounts payable of $213,774, increase in accrued expenses of $56,814, increase of deferred revenue of $759,667 and decrease of $469,673 in related party payables.

Investing Cash Flows

Net cash used in investing activities of $624,118 for the year ended December 31, 2010 was primarily attributable to purchases of property and equipment and the cost of construction related to our cGMP R&D facilities. Total use of cash for property and equipment was $299,560, which consists primarily of laboratory equipment for use in a variety of research projects, and for building leasehold improvements related to our cGMP research labs. In addition, we made payments for patent licenses of $324,558 during 2010.

Financing Cash Flows

Net cash provided by financing activities of $12,735,550 for the year ended December 31, 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 year was part of an existing agreement to raise five million dollars by issuing Series E Preferred Stock.

During year we also raised equity by offering common stock at a discount and have raised $2,690,550. 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 development activities, development of our commercial research products and for general working capital purposes. Cash received from exercises of options and warrants totaled $455,866.

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 2011 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 consolidated financial statements.

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

Revenues

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

Cost of sales

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

Research and Development

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

R&D operations consisted primarily of the development of additional stem cell lines through parthenogenesis, the development of new techniques of parthenogenesis, the development of differentiation techniques for retinal, corneal, neurons and definitive endoderm cells, and the development of research products for sale. Expenses related to these projects have not been separately accounted for on

our books as yet since the research involved often involves multiple projects, including the use of the same employees and equipment for multiple purposes.

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

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

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

Marketing Expense

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

General and Administrative Expenses

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

Liquidity and Capital Resources

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

Operating Cash Flows

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

Investing Cash Flows

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

Financing Cash Flows

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

Management believes that we will need to obtain significant additional capital resources from sources including equity and/or debt financings, license arrangements, grants and/or collaborative research arrangements in order to develop products. Thereafter, we will need to raise additional working capital. Our current burn rate is approximately $550,000 per month excluding capital expenditures.

The timing and degree of any future capital requirements will depend on many factors. Based on the above, there is substantial doubt about the Company's ability to continue as a going concern.

Off-Balance Sheet Arrangements

As of December 31, 2010, we did not have any off-balance sheet arrangements.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the U.S. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures. On an on-going basis, we evaluate our estimates and assumptions, including those related to revenue recognition, allowances for accounts receivable, inventories, goodwill and intangible assets, stock-based compensation and income taxes. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions conditions.

We believe the following accounting policies to be critical to the judgments and estimates used in the preparation of our consolidated financial statements.

Principles of Consolidation

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

Cash Equivalents

We consider cash and cash equivalents all highly liquid investments with original maturities of three months or less when purchased to be cash equivalents.

Inventories

We account for inventory 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

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

Patent Licenses

Patent licenses consist of acquired research and development rights used in research and development, which have alternative future uses. Patent licenses are recorded at cost and are amortized on a straight-line basis over the shorter of the lives of the underlying patents or the useful life of the license. Patent license cost is included in research and development expense.

Long-Lived Asset Impairment

We review 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. Due to the numerous variables associated with our judgments and assumptions relating to the carrying value of our intangible assets and the effects of changes in circumstances affecting these valuations, both the precision and reliability of the resulting estimates are subject to uncertainty, and as additional information becomes known, we may change our estimate, in which case the likelihood of a material change in our reported results would increase.

Revenue Recognition

We recognize revenue when all four of the following criteria are met: (i) persuasive evidence that an arrangement exists; (ii) delivery of the products and/or services has occurred; (iii) the selling price is fixed or determinable; and (iv) collectability is reasonably assured. Should changes in conditions cause management to determine these criteria are not met for certain future transactions, revenues recognized for any reporting period could be adversely impacted.

Revenue Arrangements with Multiple Deliverables

We sometimes enter 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

We are 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.

Stock-Based Compensation

We are required to measure and recognize compensation expense for all stock-based payment awards made to employees and consultants based on estimated fair value. We estimate the fair value of stock options granted and using the Black-Scholes option-pricing model. The fair value of our restricted stock units is based on the market price of our common stock on the date of grant.

The determination of fair value of stock-based awards using the Black-Scholes option-pricing model requires the use of certain estimates and highly judgmental assumptions that affect the amount of stock-based compensation expense recognized in our Consolidated Statements of Operations. These include estimates of the expected volatility of our stock price, expected option life, expected dividends and the risk-free interest rate. Estimated volatility is a measure of the amount by which our stock price is expected to fluctuate each year during the expected life of the award. Due to our limited historical data, our estimated volatility is calculated based upon the historical volatility of comparable companies whose share price is publicly available. The expected option life is calculated using the simplified method as prescribed by accounting guidance for stock-based compensation. We determined expected dividend yield to be 0% given we have never declared or paid any cash dividends on our common stock and we currently do not anticipate paying such cash dividends. The risk-free interest rate is based upon U.S. Treasury securities with remaining terms similar to the expected term of the share-based awards. If any of the assumptions used in the Black-Scholes model change significantly, stock-based compensation expense may differ materially from what we have recorded in the current period.

Income Taxes

We account for income taxes in accordance with provisions which set forth an asset and liability approach that requires the recognition of deferred tax assets and deferred tax liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Valuation allowances are established when necessary to reduce deferred tax assets to the amount that is more likely than not expected to be realized. In making such a determination, a review of all available positive and negative evidence must be considered, including scheduled reversal of deferred tax liabilities, projected future taxable income, tax planning strategies, and recent financial performance.

Concentration of Credit Risk

Cash and cash equivalents in banks located primarily in the United States. Bank accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 per financial institution. Beginning December 31, 2010, through December 31, 2012, all noninterest-bearing transaction accounts are fully insured, regardless of the balance of the account, at all FDIC-insured institutions, upon the implementation of section 343 of the Dodd-Frank Wall Street Reform and Consumer Protection Act that provides for unlimited insurance coverage of noninterest-bearing transaction accounts. Excess funds are invested in government securities only which are protected under the Securities Investor Protection Corporation (SIPC).

Income (Loss) Per Common Share

The computation of net loss per common share is based on the weighted average number of shares outstanding during each period based on the exchange ratio of shares issued in the merger. The computation of diluted earnings per common share is based on the weighted average number of shares outstanding during the period plus the common stock equivalents, which would arise from the exercise of stock options and warrants outstanding using the treasury stock method and the average market price per share during the period.

Comprehensive Income

The Company displays comprehensive income or loss, its components and accumulated balances in its consolidated financial statements. Comprehensive income or loss includes all changes in equity except those resulting from investments by owners and distributions to owners.

Recent Accounting Pronouncements

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

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

Not required.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

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

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

None.

ITEM 9A. CONTROLS AND PROCEDURES.

Disclosure Controls and Procedures

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

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

Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the

policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Changes in Internal Control Over Financial Reporting

There have been no changes in the Company's internal control over financial reporting that occurred during the fourth quarter of the year ended December 31, 2010 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. The Company continues to review its disclosure controls and procedures, including its internal controls over financial reporting, and may from time to time make changes aimed at enhancing their effectiveness and to ensure that the Company's systems evolve with its business.

Management Report on Internal Control Over Financial Reporting

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

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

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

Our management conducted an evaluation of the effectiveness of the system of internal control over financial reporting based on the framework in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, our management concluded that our system of internal control over financial reporting was effective as of December 31, 2010.

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

ITEM 9B. OTHER INFORMATION.

None.

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item regarding our directors is incorporated by reference to the information in our definitive Proxy Statement (the "Proxy Statement") to be filed with the Securities and Exchange Commission in connection with our 2011 Annual Meeting of Stockholders under the heading "Election of Directors." The information required by this item regarding compliance with Section 16a of the Securities and Exchange Act of 1934, as amended, is incorporated by reference to the information in the Proxy Statement under the caption "Section 16a Beneficial Ownership Reporting Compliance." The information required by this item regarding our Code of Conduct and Ethics in incorporated by reference to the information in the Proxy Statement under the caption "Code of Conduct and Ethics." The information required by this item regarding our Governance Committee and Audit Committee is incorporated by reference to the information in the Proxy Statement under the caption "Corporate Governance."

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Our executive officers are as follows:

Name	Principal Occupation	Age
Kenneth C. Aldrich	Chairman of the Board	72
Andrey Semechkin	Chief Executive Officer, Director	51
Ray Wood	Chief Financial Officer and Secretary	50
Jeffrey D. Janus	Senior Vice President, Operations ISCO, CEO and President, Lifeline Cell Technology, Director	54
Brian Lundstrom	President	48

Name	Principal Occupation	Age
Ruslan Semechkin	CEO and President of Lifeline Skin Care, Inc., Director	26

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

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

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

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

Brian Lundstrom, President, Mr. Lundstrom is trained in immunology, molecular biology, finance and international business management in Europe and the US. He has 24 years of product, clinical, business and commercial development experience from R&D-driven, publicly traded and commercially operating leaders in biologics, diabetes, transplantation, cancer and neurodegenerative diseases. Mr. Lundstrom joined International Stem Cell Corporation in November 2009. Prior to that, he was Chief Executive Officer of Brexys during 2008-2009, Senior Vice President of Business Development for ACADIA Pharmaceuticals during 2004-2008, Vice President of Business Development for Genzyme Corporation during 2000-2004, and Vice President of Corporate Development for Oxford GlycoSciences during 1998-1999. Earlier, Mr. Lundstrom held increasingly senior business, clinical and product development positions with Novo Nordisk and Immuntech in the US and Europe. None of these companies had affiliation with International Stem Cell Corporation.

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

Russian biomedical institutes, P.K.Anokhin Research Institute of Normal Physiology, Moscow, Russia. He is a Member of International Society for Stem Cell Research.

Item 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated by reference to the information in the Proxy Statement under the caption “Executive Compensation.”

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

The information required by this item is incorporated by reference to the information in the Proxy Statement under the captions “Stock Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters” and “Equity Compensation Plan Information.”

Item 13. RELATED PERSON TRANSACTIONS

The information required by this item is incorporated by reference to the information in the Proxy Statement under the captions “Related Person Transactions” and “Corporate Governance – Director Independence.”

Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this item is incorporated by reference to the information in the Proxy Statement under the caption "Ratification of Appointment of Independent Auditors – Principal Accounting Fees and Services."

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

Exhibit Number	Description
3.1	Certificate of Incorporation (incorporated by reference to Exhibit 3.4 of the issuer's Form 10-SB filed on April 4, 2006).
3.2	Certificate of Amendment of Certificate of Incorporation (incorporated by reference to Exhibit 3.1 of the Issuer's Preliminary Information Statement on Form 14C filed on December 29, 2006).
3.3	Amended and Restated Bylaws of the Registrant (incorporated by reference to Exhibit 3.2 of the Issuer's Preliminary Information Statement on Form 14C filed on December 29, 2006).
4.1	Form of Specimen Common Stock Certificate. (incorporated by reference to Exhibit 4.1 of the Issuer's Form 10-KSB for the year ended December 31, 2006.
4.2	Certification of Designation of Series A Preferred Stock (incorporated by reference to Exhibit 4.1 of the Issuer's Form 8-K filed on January 17, 2008).
4.3	Certification of Designation of Series B Preferred Stock (incorporated by reference to Exhibit 4.1 of the Issuer's Form 8-K filed on May 12, 2008).
4.4	Certification of Designation of Series C Preferred Stock (incorporated by reference to Exhibit 10.2 of the Issuer's Form 8-K filed on August 21, 2008).
4.5	Certification of Designation of Series D Preferred Stock (incorporated by reference to Exhibit 10.2 of the Issuer's Form 8-K filed on January 5, 2009).
4.6	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).
4.7	Warrant Certificate for warrants in connection with Series B Preferred Stock (incorporated by reference to Exhibit 10.2 of the Issuers Form 8-K filed on May 12, 2008).
10.1	Employment Agreement, dated December 1, 2006, by and between International Stem Cell and Kenneth C. Aldrich (incorporated by reference to Exhibit 10.1 of the Registrant's Form 8-K filed on December 29, 2006).
10.2	Employment Agreement, dated October 31, 2006, by and between International Stem Cell and Jeffrey Janus (incorporated by reference to Exhibit 10.4 of the Registrant's Form 8-K filed on December 29, 2006).
10.3	First Amendment to Exclusive License Agreement (ACT IP), dated as of August 1, 2005, by and between Advanced Cell, Inc. and Lifeline (incorporated by reference to Exhibit 10.9 of the Registrant's Form 8-K filed on December 29, 2006).
10.4	First Amendment to Exclusive License Agreement (UMass IP) dated as of August 1, 2005, by and between Advanced Cell, Inc. and Lifeline (incorporated by reference to Exhibit 10.10 of the Registrant's Form 8-K filed on December 29, 2006).
10.5	First Amendment to Exclusive License Agreement (Infigen IP) dated as of August 1, 2005, by and between Advanced Cell, Inc. and Lifeline (incorporated by reference to Exhibit 10.11 of the Registrant's Form 8-K filed on December 29, 2006).
10.6	Exclusive License Agreement (Infigen IP), dated as of May 14, 2004, by and between Advanced Cell Technology, Inc and PacGen Cellco, LLC (predecessor company of Lifeline) (incorporated by reference to Exhibit 10.12 of the Registrant's Form 8-K filed on December 29, 2006).
10.7	Exclusive License Agreement (ACT IP), dated as of May 14, 2004, by and between Advanced Cell Technology, Inc. and PacGen Cellco, LLC (predecessor company of Lifeline) (incorporated by reference to Exhibit 10.13 of the Registrant's Form 8-K filed on December 29, 2006).
10.8	Exclusive License Agreement (UMass IP), dated as of May 14, 2004, by and between Advanced Cell Technology, Inc. and PacGen Cellco, LLC (predecessor company of Lifeline) (incorporated by reference to Exhibit 10.14 of the Registrant's Form 8-K filed on December 29, 2006).

10.9	International Stem Cell Corporation 2006 Equity Participation Plan (incorporated by reference to Exhibit 10.15 of the Registrant's Form 8-K filed on December 29, 2006).
10.10	Common Stock Purchase Warrant issued with OID Senior Convertible Note (incorporated by reference to Exhibit 10.3 of the Issuers Form 8-K filed on May 16, 2008).
10.11	Multiple Advance Convertible Note (incorporated by reference to Exhibit 10.1 of the Issuers Form 8-K filed on August 18, 2008).
10.12	Common Stock Purchase Warrant issued with Multiple Advance Convertible Note (incorporated by reference to Exhibit 10.2 of the Issuers Form 8-K filed on August 18, 2008).
10.13	Employment Agreement with Andrey Semechkin (incorporated by reference to Exhibit 10.4 of the Issuers Form 8-K filed on January 5, 2009).
10.14	Employment Agreement with Ruslan Semechkin (incorporated by reference to Exhibit 10.5 of the Issuers Form 8-K filed on January 5, 2009).
10.15	Preferred Stock Purchase Agreement dated June 30, 2009 (incorporated by reference to Exhibit 10.1 of the Issuer's Form 8-K filed on July 6, 2009).
10.16	Employment Agreement with Brian Lundstrom dated November 5, 2009 (incorporated by reference to Exhibit 10.18 of the Issuer's Form 10-K filed on March 30, 2010).
10.17	Form of Stock Option Agreement for stock options granted outside of the 2006 Equity Participation Plan (incorporated by reference to Exhibit 10.19 of the Issuer's Form 10-K filed on March 30, 2010).
10.18	Preferred Stock Purchase Agreement dated May 4, 2010 (incorporated by reference to Exhibit 10.2 of the Issuer's form 8-K filed May 5, 2010).
10.19	Common Stock Purchase Agreement, dated as of December 9, 2010, by and between the Company and Aspire Capital Fund, LLC (incorporated by reference to Exhibit 10.1 of the Issuer's Form 8-K filed on December 13, 2010).
10.20	Registration Rights Agreement, dated as of December 9, 2010, by and between the Company and Aspire Capital Fund, LLC (incorporated by reference to Exhibit 10.2 of the Issuer's Form 8-K filed on December 13, 2010).
10.21	Cell Culture Automation Agreement dated May 13, 2010 (incorporated by reference to Exhibit 10.1 of the Issuer's Form 8-K filed on May 19, 2010).
10.22	Exchange Agreement with Socius CG II, Ltd. dated June 11, 2010 (incorporated by reference to Exhibit 10.4 of the Issuer's Form 10-Q filed on August 6, 2010).
10.23	Exchange Agreement with Optimus Capital Partners, LLC dated June 11, 2010 (incorporated by reference to Exhibit 10.5 of the Issuer's Form 10-Q filed on August 6, 2010).
10.24	2010 Equity Participation Plan (incorporated by reference to Appendix A of the Issuer's Schedule A filed March 30, 2010.
21.1	Subsidiaries of the Registrant (incorporated by reference to Exhibit 21.1 of the Registrant's Form S-1 filed on December 17, 2010).
23.1	Consent of Vasquez & Company LLP.
31.1	Rule 13a-14(a)/15d-14a (a) Certification of Chief Executive Officer.
31.2	Rule 13a-14(a)/15d-14a (a) Certification of Chief Financial Officer.
32.1	Section 1350 Certification of Chief Executive Officer.
32.2	Section 1350 Certification of Chief Financial Officer.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

INTERNATIONAL STEM CELL CORPORATION

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

Dated: March 24, 2011

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

Signature:	Capacity:	Date:
/S/ KENNETH C. ALDRICH **Kenneth C. Aldrich**	Chairman of the Board	March 24, 2011
/S/ ANDREY SEMECHKIN **Andrey Semechkin**	Chief Executive Officer and Director (Principal Executive Officer)	March 24, 2011
/S/ JEFFREY D. JANUS **Jeffrey D. Janus**	Sr. Vice President Operations and Director	March 24, 2011
/S/ RAY WOOD **Ray Wood**	Chief Financial Officer (Principal Financial and Accounting Officer)	March 24, 2011
/S/ RUSLAN SEMECHKIN **Ruslan Semechkin**	Director	March 24, 2011
/S/ DONALD A. WRIGHT **Donald A. Wright**	Director	March 24, 2011
/S/ PAUL V. MAIER **Paul V. Maier**	Director	March 24, 2011
Charles J. Casamento	Director	

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

Years Ended December 31, 2010 and 2009

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of International Stem Cell Corporation and subsidiaries (a development stage company) (the "Company") as of December 31, 2010 and 2009, and the related consolidated statements of operations, members' deficit and stockholders' equity (deficit) and cash flows for the years then ended and for the period from inception (August 17, 2001) through December 31, 2010. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of International Stem Cell Corporation and subsidiaries as of December 31, 2010 and 2009, and the results of their operations and their cash flows for the years then ended and for the period from inception (August 17, 2001) through December 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

/s/ Vasquez & Company LLP
Los Angeles, California
March 24, 2011

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INTERNATIONAL STEM CELL CORPORATION AND SUBSIDIARIES (A Developmental Stage Company)

Consolidated Balance Sheets

	December 31, 2010	December 31, 2009
Assets		
Current assets		
Cash and cash equivalents	$ 5,782,027	$ 726,829
Accounts receivable	738,506	130,988
Inventory, net	856,083	631,309
Prepaid assets	228,338	245,976
Total current assets	7,604,954	1,735,102
Property and equipment, net	1,295,328	1,209,509
Patent licenses, net	986,714	737,507
Deposits and other assets	39,812	22,383
Total assets	$ 9,926,808	$ 3,704,501
Liabilities and Stockholders' Equity (Deficit)		
Current liabilities		
Accounts payable	$ 582,824	$ 369,050
Accrued expenses	438,576	631,762
Deferred revenue	759,667	—
Convertible debt and advances	250,000	250,000
Warrants to purchase common stock	—	1,103,223
Related party payable	—	469,673
Total liabilities	2,031,067	2,823,708
Long-Term Perpetual Preferred Stock	—	2,033,288
Stockholders' Equity (Deficit)		
Common stock, $0.001 par value 200,000,000 shares authorized, 74,771,107 and 56,034,835 issued and outstanding 2010		

and 2009, respectively	74,771	56,035
Preferred stock, $0.001 par value 20,000,000 shares authorized, 2,800,043 and 3,000,243 issued and outstanding 2010 and 2009, respectively	2,800	3,000
Note Subscription on Perpetual Preferred Stock	(4,875)	(2,708,988)
Additional paid-in capital	55,749,093	38,067,152
Deficit accumulated during the development stage	(47,926,048)	(36,569,694)
Total stockholders' equity (deficit)	7,895,741	(1,152,495)
Total liabilities and stockholders' equity (deficit)	$ 9,926,808	$ 3,704,501

See accompanying notes to consolidated financial statements

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INTERNATIONAL STEM CELL CORPORATION AND SUBSIDIARIES (A Developmental Stage Company)

Consolidated Statements of Operations (A Developmental Stage Company)

	Year Ended December 31,		Inception (August 17, 2001) through December 31,
	2010	2009	2010
Product sales	$ 1,568,480	$ 1,121,164	$ 3,099,165
Royalties and license	—	—	135,000
Total revenue	1,568,480	1,121,164	3,234,165
Development expenses			
Cost of sales	724,641	789,705	1,715,472
Research and development	3,374,012	2,164,450	13,860,278
Marketing	860,157	526,641	2,399,149
General and administrative	7,071,714	4,839,297	23,323,822
Total development expenses	12,030,524	8,320,093	41,298,721
Loss from development activities	(10,462,044)	(7,198,929)	(38,064,556)
Other income (expense)			
Settlement with related company	—	720	(92,613)
Miscellaneous	(26,155)	—	(17,512)
Dividend and interest income	27,635	9,227	92,875
Interest expense	(14,079)	(94,587)	(2,225,074)
Change in market value of warrants	319,741	(498,183)	(479,857)
Sublease income	252,204	9,100	298,433
Total other income (loss)	559,346	(573,723)	(2,423,748)
Loss before tax	(9,902,698)	(7,772,652)	(40,488,304)
Provision for income taxes	—	—	6,800
Net loss	$ (9,902,698)	$ (7,772,652)	$ (40,495,104)
Dividend on preferred stock	(1,453,656)	(4,395,661)	(7,430,944)

Net loss applicable to common shareholders	$(11,356,354)	$(12,168,313)	$ (47,926,048)
Net loss per common share—basic and diluted	$ (0.17)	$ (0.26)	n/a
Weighted average shares—basic and diluted	68,761,650	46,418,635	n/a

See accompanying notes to consolidated financial statements

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INTERNATIONAL STEM CELL CORPORATION AND SUBSIDIARIES (A Developmental Stage Company)

Consolidated Statements of Members' Deficit and Stockholders' Equity (Deficit)
From Inception to December 31, 2010

	Common Stock		Preferred Stock Issued		Note Subscription on Perpetual/Preferred	Subscription Receivable	Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity	Members' Deficit
	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 contribution										1,110,000
Net loss for the year ended										(854,718)
Activity through December 31, 2004										(250,360)
Members contributions										780,000
Net loss for the year ended December 31, 2002										(1,385,745)
Balance at December 31, 2005										(856,105)
Members contribution										250,000
Effect of the Reorganization Transactions	20,000,000	20,000					2,665,000	(3,291,105)	(606,105)	606,105
BTHC transactions	2,209,993	2,210					(2,210)		—	
Offering costs							(2,778,082)		(2,778,082)	
Warrants issued for equity placement services										

							1,230,649	1,230,649	
Warrants issued for services							222,077	222,077	
Warrants issued with promissory note							637,828	637,828	
Common stock issued for services	1,350,000	1,350					1,348,650	1,350,000	
Issuance of common stock	10,436,502	10,436					10,371,512	10,381,948	
Stock-based compensation							842,374	842,374	
Net loss for the year ended December 31, 2006								(6,583,927)	(6,583,927)
Balance at December 31, 2006	33,996,495	33,996					14,537,798	(9,875,032)	4,696,762

Offering costs						(382,124)		(382,124)	
Warrants issued for equity placement services						169,249		169,249	
Issuance of common stock	1,370,000	1,370				1,368,630		1,370,000	
Warrants exercised	3,000	3				2,997		3,000	
Stock-based compensation						427,496		427,496	
Net loss for the year ended December 31, 2007							(6,071,983)	(6,071,983)	
Balance at December 31, 2007	35,369,495	35,369	—	—		16,124,046	(15,947,015)	212,400	—
Issuance of Preferred Stock			3,550,010	3,550		4,546,450		4,550,000	
Warrants issued and beneficial conversion feature						910,963		910,963	
Issuance of Common Stock for services	3,041,180	3,041				593,358		596,399	
Stock-based compensation						734,867		734,867	
Deemed Dividend						1,581,627	(1,581,627)	—	
Net loss for the year ended December 31, 2008							(6,571,324)	(6,571,324)	
Balance at December 31, 2008	38,410,675	38,410	3,550,010	3,550	—	24,491,311	(24,099,966)	433,305	
Issuance of Preferred Stock			37			3,681,700		3,681,700	
Preferred Stock Subscription									
Issuance of Common Stock									
For services	1,208,140	1,208				940,974		942,182	
From conversion of preferred stock	3,726,800	3,727	(550,004)	(550)		(3,177)		—	
From conversion of debt	2,000,000	2,000				498,000		500,000	
From exercise of warrants	4,392,386	4,392			(2,700,000)	3,659,471		963,863	
From cashless exercise of warrants	3,510,206	3,511				(3,511)		—	
For cash	2,786,628	2,787				1,397,213		1,400,000	

Stock-based compensation							409,625		409,625
Warrants issued for services							281,416		281,416
Options issued for services							106,058		106,058
Deemed Dividend							3,161,700	(4,031,332)	(869,632)
Cumulative effect adjustment—warrant liabilities							(303,628)	(301,415)	(605,043)
Equity placement shares							(250,000)		(250,000)
Dividend on preferred stock								(364,329)	(364,329)
Net loss for the year ended December 31, 2009					(8,988)			(7,772,652)	(7,781,640)
Balance at December 31, 2009	56,034,835	$56,035	3,000,043	$3,000	$(2,708,988)		$38,067,152	$(36,569,694)	$(1,152,495)

Issuance of Preferred Stock								
Preferred Stock Subscription								
Issuance of Common Stock								
For services	749,167	749				1,083,651		1,084,400
From conversion of preferred stock and options	800,000	800	(200,000)	(200)		(600)		—
From conversion of debt								
From exercise of warrants	5,062,815	5,063			(3,254,513)	(4,875)	4,746,969	1,492,644
From cashless exercise of warrants and options	1,531,150	1,531				(1,531)		—
For cash	10,593,140	10,593				10,179,957		10,190,550
Stock-based compensation						2,068,347		2,068,347
Warrants issued for services								
Options issued for services								
Cumulative effect adjustment—warrant liabilities						804,971		804,971
Deemed dividend on preferred stock							(1,036,778)	(1,036,778)
Accrued and paid dividend on preferred stock							(416,878)	(416,878)
Swap notes Receivable and Perpetual Preferred Stock					5,989,123		(1,199,823)	4,789,300
Net loss for the year ended December 31, 2010					(25,622)		(9,902,698)	(9,928,320)
Balance at December 31, 2010	74,771,107	$74,771	2,800,043	$2,800	$ —	$(4,875)	$55,749,093	$(47,926,048)	$ 7,895,741

See accompanying notes to consolidated financial statements

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INTERNATIONAL STEM CELL CORPORATION AND SUBSIDIARIES (A Developmental Stage Compnay)

Consolidated Statements of Cash Flows

	Year Ended December 31,		Inception (August 17, 2001) through December 31, 2010
	2010	2008	
Cash flows from operating activities			
Net loss	$(9,902,698)	$(7,772,652)	$ (40,495,104)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	289,092	205,948	947,512
Accretion of discount on notes payable	—	—	103,304
Accretion of discount on bridge loans	—	—	637,828
Non-cash warrants for services	—	—	222,077
Stock-based compensation expense	2,068,347	797,099	4,870,183
Common stock issued for services	1,105,889	942,182	3,994,470
Change in market value of warrants	(319,741)	498,183	479,857
Amortization of debt discount on convertible debt	—	67,227	1,080,962
Allowance for inventory obsolescence	15,000	—	15,000
Interest on note receivable	(25,622)	(8,988)	(34,610)
Changes in operating assets and liabilities:			
(Increase) in accounts receivable	(607,518)	(49,090)	(738,506)
(Increase) in inventory	(239,774)	(213,966)	(871,083)
(Increase) decrease in prepaid assets	17,638	(170,548)	(228,338)
(Increase) in deposits	(17,429)	(197)	(39,812)
Increase (decrease) in accounts payable	213,774	(95,984)	582,824
Increase in accrued expenses	56,814	531,971	829,776
Increase in deferred revenue	759,667	—	759,667
Increase (decrease) in related party payables	(469,673)	40,521	(164,504)

Net cash used in operating activities	(7,056,234)	(5,228,294)	(28,048,497)
Investing activities			
Purchases of property and equipment	(299,560)	(731,017)	(1,924,145)
Payments for patent licenses	(324,558)	(158,872)	(1,305,408)
Net cash used in investing activities	(624,118)	(889,889)	(3,229,553)
Financing activities			
Proceeds from members' contribution	—	—	2,685,000
Issuance of common stock	10,190,550	1,494,231	23,439,730
Issuance of preferred stock	2,410,750	5,300,000	12,260,750
Issuance of convertible promissory notes	—	—	2,099,552
Exercise of options and warrants	455,866	—	455,866
Payment of preferred stock dividends	(321,616)	(331,041)	(652,657)
Payment of promissory notes	—	—	(2,202,856)
Payment of offering costs	—	—	(1,760,308)
Proceeds from convertible debt, advances and loan payable	—	—	1,360,000
Payment of loan payable	—	—	(625,000)
Net cash provided by financing activities	12,735,550	6,463,190	37,060,077
Net increase in cash and cash equivalents	5,055,198	345,007	5,782,027
Cash and cash equivalents at beginning of period	726,829	381,822	—
Cash and cash equivalents at end of period	$ 5,782,027	$ 726,829	$ 5,782,027
Supplemental disclosures of cash flow information			
Cash paid for interest	$ 30,468	$ 22,929	$ 371,822
Cash paid for income taxes	$ 800	$ 3,265	$ 11,148
Non-cash financing activities:			
Discount on convertible debt from beneficial conversion feature	$ —	$ —	$ 641,331
Discount on convertible debt from warrants	$ —	$ —	$ 269,632

Deemed dividend on preferred stock	$ 1,036,778	$ 4,064,620	$ 6,683,025
Conversion of debt to common stock	$ —	$ 500,000	$ 500,000
Accrual of equity placement costs	$ (250,000)	$ 250,000	$ —
Warrants issued for placement agent services	$ —	$ —	$ 1,230,649
Warrants issued with promissory notes	$ —	$ —	$ 637,828
Non-cash sale of preferred stock	$ —	$ 381,700	$ 381,700
Dividend on preferred stock exchanged for note receivable	$ 95,262	$ —	$ 95,262
Conversion of preferred stock	$ 800	$ 1,400	$ 2,200

See accompanying notes to consolidated financial statements

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

Notes to Consolidated Financial Statements

1. Organization and Significant Accounting Policies

BUSINESS COMBINATION AND CORPORATE RESTRUCTURE

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

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

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

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

Basis of Presentation

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

Principles of Consolidation

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

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.

Cash Equivalents

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

Inventory

Inventories are 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.

Accounts Receivable

Trade accounts receivable are recorded at the net invoice value and are not interest bearing. Accounts Receivable consist of trade account receivable from the sales of Lifeline Cell Technology's products and cash held by a third party merchant service provider, which is required to hold 20% of cash collected on our behalf. The Company considers receivables past due based on the contractual payment terms. The Company reviews its exposure to amounts receivable and reserves specific amounts if collectibility is no longer reasonably assured.

Property and Equipment

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

Patent Licenses

Patent licenses, net, consists of acquired research and development rights used in research and development, which have alternative future uses. Patent licenses are recorded at cost of $1,305,408 and $980,850 at December 31, 2010 and 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 amounted to $75,351 and $58,570 for the years ended December 31, 2010 and 2009, respectively, and is included in research and development expense. Accumulated amortization as of December 31, 2010 and 2009 are $318,694 and $243,343, respectively. Additional information regarding patent licenses is included in Note 4.

Long-Lived Asset Impairment

The Company reviews long-lived assets for impairment when events or changes in business conditions indicate that their carrying value may not be recovered. The Company considers assets to be impaired and writes them down to fair value if expected associated cash flows are less than the carrying amounts. Fair value is the present value of the associated cash flows. The Company has determined that no material long-lived assets are impaired at December 31, 2010.

Deferred Revenue

The Company recognizes revenue from its LifeLine Skin Care products when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the seller's price to the buyer is fixed or determinable, and collectibility is reasonably assured. However, the LifeLine Skin Care products have a 30 day right of return guarantee and therefore, we defer all revenue associated with these product sales until final the 30 days guarantee has expired. In addition, all costs associated with these product sales are reclassed against the deferred revenue account so that the net deferred revenue balance.

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 composed 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

On January 1, 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 December 31, 2010.

	Total	Level 1	Level 2	Level 3
ASSETS:				
	$ —	$ —		
Cash equivalents				
	$4,991,931	$4,991,931	$ —	$ —
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.

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 December 31, 2010, operating loss carryforwards of approximately $12,776,000, 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 $10,106,000. The increase in net operating loss carryforwards for the year ended December 31, 2010 is approximately $2,670,000.

Use of Estimates

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

Concentration of Credit Risk

The Company maintains its cash and cash equivalents in banks located primarily in the United States. Bank accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 per financial institution at December 31, 2009. At December 31, 2010, all noninterest-bearing transaction accounts are fully insured, regardless of the balance of the account, at all FDIC-insured institutions. At December 31, 2009, the Company's cash balances on deposit with the financial institutions in excess of the FDIC $526,086. All cash balances on deposit with financial institutions are fully insured at December 31, 2010. Also at December 31, 2010, the Company had $4,991,931 of cash in accounts which are under the Securities Investor Protection Corporation (SIPC).

Fair Value of Financial Instruments

The Company believes that the carrying value of its cash and cash equivalents, accounts payable and accrued liabilities as of December 31, 2010 and 2009 approximate their fair values because of the short-term nature of those instruments.

Income (Loss) Per Common Share

The computation of net loss per common share is based on the weighted average number of shares outstanding during each period based on the exchange ratio of shares issued in the merger. The computation of diluted earnings per common share is based on the weighted average number of shares outstanding during the period plus the common stock equivalents, which would arise from the exercise of stock options and warrants outstanding using the treasury stock method and the average market price per share during the period. At year end, December 31, 2010, there were 6,270,878 warrants, 7,830,216 vested stock options and 12,888,660 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 year ended December 31, 2010 and 2009 or the period from inception through December 31, 2010.

Recent Accounting Pronouncements

In December 2010, the FASB issued Accounting Standards Update 2010-27, Other Expenses (Topic 720): Fees Paid to the Federal Government by Pharmaceutical Manufacturers. This ASU provides guidance resulting from EITF Issue No. 10-D on how pharmaceutical manufacturers should recognize and classify in their income statements fees mandated by the Patient Protection and Affordable Care Act as amended by the Health Care and Education Reconciliation Act (the Acts). The Acts impose an annual fee on the pharmaceutical manufacturing industry for each calendar year beginning on or after January 1, 2011. An entity's portion of the annual fee is payable no later than September 30 of the applicable calendar year and is not tax deductible. A portion of the annual fee will be allocated to individual entities on the basis of the amount of their branded prescription drug sales for the preceding year as a percentage of the industry's branded prescription drug sales for the same period. An entity's portion of the annual fee becomes payable to the U.S. Treasury once a pharmaceutical manufacturing entity has a gross receipt from branded prescription drug sales to any specified government program or in accordance with coverage under any government program for each calendar year beginning on or after January 1, 2011. The amendments in this ASU specify that the liability for the fee should be estimated and recorded in full upon the first qualifying sale with a corresponding deferred cost that is amortized to expense using a straight-line method of allocation unless another method better allocates the fee over the calendar year that it is payable. The amendments in this ASU are effective for calendar years beginning after December 31, 2010, when the fee initially becomes effective. The provisions of ASU-2010-27 and its amendments are not expected to have an impact on the Company's financial statements.

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

In March 2010, the FASB issued Accounting Standards Update 2010-11, Derivatives and Hedging (Topic 815): Scope Exception Related to Embedded Credit Derivatives. ASU 2010-11 clarifies and amends the accounting for credit derivatives embedded in beneficial interests in securitized financial assets. Currently, certain credit derivative features embedded in beneficial interests in

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

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

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

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:

	December 31,	
	2010	2008
Raw materials	$196,046	$133,192
Work in process	3,877	189,679
Finished goods	671,160	308,438
Total	$871,083	$631,309
Less allowance for inventory obsolescence	15,000	—
Inventory, net	$856,083	$631,309

3. Property and Equipment

Property and equipment consists of the following:

	December 31,	
	2010	2009
Machinery and equipment	$ 733,807	$ 660,282
Computer equipment	241,282	196,665
Office equipment	81,068	72,307
Leasehold improvements	834,527	661,870
	1,890,684	1,591,124
Accumulated depreciation and amortization	(595,356)	(381,615)
Property and equipment, net		

	$1,295,328	$1,209,509

Depreciation and amortization expense was $213,741 and $147,378 for the years ended December 31, 2010 and 2009, respectively. From time to time we use equipment that is classified under operating lease arrangements and the expenses related to this equipment is expensed monthly as general and administrative, research and development or sales and marketing expenses.

4. Patent Licenses

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

On May 14, 2004, Lifeline amended the licensing agreement with ACT for the exclusive worldwide patent rights for the following ACT technologies: UMass IP and ACT IP, which terms are summarized below. The license fees aggregate a total of $400,000 and are secured by separate convertible promissory notes. The notes bear no interest unless they are not repaid at maturity, in which event they shall thereafter bear interest at an annual rate equal the lesser of 10% or the maximum non-usurious rate legally allowed.

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

	December 31, 2010	December 31, 2009
Management fee	$—	$292,009
Loan payable	—	177,664
Related Party Payables	$—	$469,673

SeaCrest Capital and SeaCrest Partners are controlled by Mr. Adams and Mr. Aldrich, YKA Partners is controlled by Mr. Aldrich, and the amounts represent advances to the Company for operating expenses. The management fee was paid to Mr. Adams and Mr. Aldrich, who acted as managing members of the Company

(and prior to the Share Exchange of ISC California and Lifeline) for management of the Company since inception of Lifeline for an aggregate of $10,000 per month plus accrued interest at 10% per annum on the unpaid balance. Effective June 1, 2006 the management fee was increased to $20,000 per month. The management fee ceased on November 1, 2006, at which time Mr. Adams and Mr. Aldrich became employees of ISC.

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

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

The warrants permit the holder to purchase up to 700,000 shares of common stock from the Company at $0.50 per share until five years from the issuance of the warrants. The warrants contain anti-dilution clauses whereby, (subject to the exceptions contained in those instruments) if the Company issues equity securities or securities convertible into equity at a price below the exercise price of the warrant, such exercise price shall be adjusted downward to equal the price of the new securities.

In August 2008, due to the issuance of equity securities with a conversion rate that is lower than the exercise price of the warrants, the exercise price of the warrants was reduced to $0.25. The estimated adjusted fair value of the warrants was determined using the Black-Scholes valuation model using risk-free interest rate of 3%, volatility rate of 57.9%, term of five years, and exercise price of $0.25. Allocated fair value of the warrants of $80,963 has been recorded as a discount to the related party loan payable and is being amortized over the term of the note using the straight-line method. For the year ended December 31, 2008, amortization of the discount was $72,742. Unamortized discount as of December 31, 2008 was $8,221. For the year ended December 31, 2009, there were no equity securities issued that required a fair value adjustment. In June 2010, both the management fees and loan payable 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 Cell Technology ("Lifeline"), a wholly-owned subsidiary of International Stem Cell Corporation, to produce, make, and distribute Joint Products. The $250,000 advance will be paid down with the first $250,000 of net revenues that otherwise would be allocated to Lifeline under the agreement. As of December 31, 2010 no revenues were realized from this agreement.

	December 31, 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.

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.

The number of warrants converted into common stock by Brookstreet was 484,675 for the completion of the Brookstreet financing and issued 1,370,000 shares of common stock that was part of a private placement of securities by ISC California during the second half of 2006. The net proceeds from the shares whose sale was finalized in 2007 was $1,157,125 net of cash fees and expenses. In

connection with the final settlement in 2007, the selling agent for the private placement received 274,000 additional warrants, which entitle the holder thereof to purchase that number of shares of common stock for $1.00 each.

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

On July 31, 2009, the Company filed an S-1 with the Securities and Exchange Commission as part of the Preferred Stock Purchase Agreement the Company signed on June 30, 2009, between International Stem Cell Corporation and 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.

On December 9, 2010, International Stem Cell Corporation ("ISCC" or the "Company") entered into a Common Stock Purchase Agreement (the "Purchase Agreement") with Aspire Capital Fund, LLC ("Aspire Capital") which provides that, upon the terms and subject to the conditions and limitations set forth therein, Aspire Capital is committed to purchase up to an aggregate of $25.0 million of shares of ISCC common stock (the "Purchase Shares") over the term of the Purchase Agreement. In connection with the execution of the Purchase Agreement, ISCC sold Aspire 333,333 shares of common stock for a total of $500,000. Under the Purchase Agreement, the Company also agreed to pay Aspire Capital a commitment fee of 500,000 shares of its common stock. The Company is not obligated to pay any additional expense reimbursement or any placement agent fees in connection with the transaction.

The Purchase Agreement is intended to provide the Company with a source of capital of up to $25 million over the next three years. The sales price of any shares the Company elects to sell will be known by the Company at the time it makes the decision to sell and will be determined by a formula (described below) based on the price of the Company's stock over the preceding 12 days. As a result, the Company will be able to sell shares on whatever schedule it believes best suits its needs and is not required to sell any shares unless it deems such sales to be beneficial to the Company.

Summary of terms of Purchase Agreement

Once the Registration Statement (referred to below) is effective, on any day on which the principal market for shares of ISCC common stock is open for trading, over the three-year term of the Purchase Agreement, the Company has the right, in its sole discretion, to provide Aspire Capital with a purchase notice (each, a "Purchase Notice") directing Aspire Capital to purchase the number of shares of ISCC common stock specified in the Purchase Notice. The number of shares the Company may designate in the Purchase Notice varies based on the closing price of the ISCC common stock on the date of the Purchase Notice. The Company may direct Aspire Capital to purchase up to: (1) 100,000 shares of common stock so long as the closing price is above $0.25; (2) 150,000 shares of common stock so long as the closing price is above $1.25; (3) 200,000 shares of common stock so long as the closing price is above $1.75 and (4) 300,000 shares of common stock so long as the closing price is above $2.25. The purchase price per share (the "Purchase Price") for each Purchase Notice is the lower of (i) the lowest sale price for the common stock on the date of sale or (ii) the arithmetic average of the three lowest closing sale prices for the common stock during the 12 consecutive business days ending on the business day immediately preceding the purchase date of those securities.

The timing and the number of shares covered by each Purchase Notice are determined in the Company's sole discretion, and the applicable Purchase Price will be determined prior to delivery of any Purchase Notice. The Company may deliver multiple Purchase Notices to Aspire Capital from time to time during the term of the Purchase Agreement, so long as the most recent purchase has been completed. There are no trading volume requirements or restrictions under the Purchase Agreement. Aspire Capital has no right to require any sales by the Company, but is obligated to make purchases as directed in accordance with the Purchase Agreement.

The Purchase Agreement contains customary representations, warranties, covenants, closing conditions and indemnification and termination provisions. The Purchase Agreement may be terminated by the Company at any time, at its discretion, without any cost or penalty. Aspire Capital has covenanted not to cause, or engage in any manner whatsoever, any direct or indirect short selling or hedging of ISCC common stock. The Company did not pay any additional amounts to reimburse or otherwise compensate Aspire

Capital in connection with the transaction. There are no limitations on use of proceeds, financial or business covenants, restrictions on future fundings, rights of first refusal, participation rights, penalties or liquidated damages in the Purchase Agreement.

The Company's net proceeds will depend on the Purchase Price and volume and frequency of the Company's sales of shares to Aspire Capital; provided, however, that the maximum aggregate proceeds from sales of shares to Aspire Capital under the Purchase Agreement is $25 million. The Company anticipates that delivery of Purchase Notices will be made subject to market conditions, in light of the Company's capital needs from time to time and under the limitations contained in the Purchase Agreement. The Company expects to use proceeds from sales of shares to Aspire Capital for funding its research and development activities and for general corporate purposes and working capital requirements.

Registration Rights

In connection with the Purchase Agreement, the Company also entered into a Registration Rights Agreement (the "Registration Rights Agreement") with Aspire Capital, dated December 9, 2010. The Registration Rights Agreement provides, among other things, that the Company will register the resale of the commitment fee shares and the shares that have been or may be sold to Aspire Capital (collectively, the "Securities") by Aspire Capital. The Company further agreed to keep the Registration Statement effective and to indemnify Aspire Capital for certain liabilities in connection with the sale of the Securities under the terms of the Registration Rights Agreement.

As of December 31, 2010, the Company has not draw any funds or issued any additional stock under the S-1 filed in conjunction with this transaction.

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 December 31, 2010, operating loss carryforwards of approximately $12,776,000, 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 $10,106,000. The increase in carryforwards for the year ended September 30, 2010 is approximately $2,670,000.

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 year ended December 31, 2010 and December 31, 2009 follows:

	December 31, 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:

	December 31, 2010	December 31, 2009
Deferred tax assets (liabilities)		
Net operating loss carryforwards	$12,776,000	$10,106,000
Accrued expenses	462,000	632,000
Research and Development tax credit (Fed and St.)	342,000	184,000
Deferred tax assets	$13,580,000	10,922,000

	December 31, 2010	December 31, 2009
Valuation allowance	(13,580,000)	(10,922,000)
Net deferred tax assets	$ —	$ —

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

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

9. Stock Options and Warrants

Stock Options

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 10,257,593 shares of common stock to certain employees and consultants. These options vest over 50 months and expire not later than 10 years from the date of grant.

In accordance applicable authoritative guidance, the Company is required to establish assumptions and estimates of the weighted-average fair value of stock options granted, as well as using a valuation model to calculate the fair value of stock-based awards. The Company uses the Black-Scholes option-pricing model to determine the fair-value of stock-based awards. All options are amortized over the requisite service periods. The Company recognized $2,068,347 for the year ended December 31, 2010 of stock-based compensation, of which approximately $413,669 related to R&D expense, $103,417 related to Sales and Marketing expense and $1,551,261 related to general and administrative expense. During 2009, the Company recognized $797,099 as stock-based compensation expenses, of which $119,365 related to R&D expense, $106,871 related to Sales and Marketing expense and $183,389 related to General and Administrative expense. Unrecognized compensation cost related to stock options as of December 31, 2010 was $5,583,959 and the weighted average life of these outstanding stock options is approximately 3.09 years.

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 year ended December 31, 2010 and 2009:

	2010	2009
Significant assumptions (weighted-average):		
Risk-free interest rate at grant date	1.92%	1.62%
Expected stock price volatility	68%	68%
Expected dividend payout	0%	0%
Expected option life-years based on management's estimate	5.98 yrs	3.71 yrs

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 December 31, 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	2,689,900	7.61	$ 0.44	1,456,400	7.51	$ 0.44
$0.51-$0.75	12,109,737	8.87	$ 0.61	2,991,937	8.87	$ 0.61
$0.76-$1.00	2,715,539	5.07	$ 1.00	2,637,139	5.02	$ 1.00
$1.01-$1.25	24,600	6.82	$ 1.15	17,400	6.82	$ 1.15
$1.26-$1.50	2,459,100	9.22	$ 1.31	436,140	7.87	$ 1.38
$1.51-$3.20	720,000	8.29	$ 2.04	291,200	7.29	$ 2.58
	20,718,876	8.23	$ 0.77	7,830,216	7.20	$ 0.84

	Number of Shares issued under 2006 Plan and 2010 Plan	Weighted Average Price Per Share
Outstanding at December 31, 2008	6,167,500	$ 0.85
Granted	2,786,537	$ 0.58
Exercised	(16,400)	$ 0.43
Canceled or expired	(825,600)	$ 0.46
Outstanding at December 31, 2009	8,112,037	$ 0.76
Granted	2,683,000	$ 1.34
Exercised	(547,400)	$ 0.75
Canceled or expired	(237,700)	$ 0.63
Outstanding at December 31, 2010	10,009,937	$ 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	(311,905)	$ 0.80
Canceled or expired		

	(28,749)	$ 0.62
Outstanding at December 31, 2010	10,708,939	$ 0.64

Warrants

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

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

During 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, we issued two warrants to purchase shares of common stock with the purchase of one Series A Preferred Stock, were 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, were an additional 1,100,000 common stock warrants were outstanding. As of December 31, 2010, only 400,000 warrants related to the series A was converted into 800,000 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. During the year ended December 31, 2009, the Company issued a total of 3,610,206 shares of common stock which related to warrants originally issued to Brookstreet and to Gemini Master Fund, Ltd. Brookstreet converted a total of 612,267 warrants into 584,675 shares of common stock at an average cashless conversion price of $0.95 per share. Gemini Master Fund, Ltd., converted 4,000,000 warrants into 3,025,531 share of common stock at an average cashless conversion price of $0.78 per share. Series A warrants were converted into 800,000 shares of common stock at $0.25 per share.

10. Commitments and Contingencies

Leases

The Company leases office space under a noncancelable operating leases. Future minimum lease payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of December 31, 2010, are as follows:

	Amount
2011	272,914
2012	341,974
2013	353,248
2014	353,156
2015	422,738
Total	$1,743,930

11. Subsequent Events

On February 25 2011, International Stem Cell Corporation (the "Company") entered into a lease agreement (the "Lease Agreement") with S Real Estate Holdings LLC to allow the Company to expand into new corporate offices located at 5950 Priestly Drive, Carlsbad, California. The new building will be used for administrative purposes, but could also be used for research and development purposes if such space is needed in the future. The lease covers approximately 4,653 square feet, which is to be occupied on or about March 1, 2011. The lease expires on February 29, 2016, subject to the Company's right to extend the term for up to five additional years. The Company will begin paying rent once the Company occupies the facilities, at an initial rate of $5,118 per month. The monthly base rent will increase by 3% annually on the anniversary date of the agreement. The Company is also obligated to pay a portion of the utilities for the building and increases in property tax and insurance. In addition, the company will pay it's proportionate share of the CC&R fees.

S Real Estate Holdings LLC is owned by Dr. Andrey Semechkin, the Company's Chief Executive Officer and a director. The Lease Agreement was negotiated at arms length and was reviewed by the Company's outside legal counsel. The terms of the lease were reviewed by a committee of independent directors, and the Company believes that, in total, those terms are at least as favorable to the Company as could be obtained for comparable facilities from an unaffiliated party.

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

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

We hereby consent to the incorporation by reference in the Prospectus constituting a part of the Registration Statements on Form S-8 (Nos. 333-166420, 333-166421, 333-166883, 333-169549, 333-164539, 333-150920, 333-159424 and 333-159421) of our report dated March 23, 2011 of International Stem Cell Corporation and subsidiaries (the Company), a development stage company, relating to the consolidated balance sheets as of December 31, 2010 and 2009, and the related consolidated statements of operations, members' deficit and stockholders' equity and cash flows for the years then ended and for the period from inception (August 17, 2001) to December 31, 2010, which report is included in this Annual Report on Form 10-K.

/s/ Vasquez & Company LLP

Los Angeles, California
March 24, 2011

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Andrey Semechkin, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: March 24, 2011

/s/ Andrey Semechkin

Andrey Semechkin
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Ray Wood, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: March 24, 2011

/s/ Ray Wood

Ray Wood

Chief Financial Officer

(Principal Financial and Accounting Officer)

Exhibit 32.1

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

In connection with the Annual Report of International Stem Cell Corporation (the "Company") on Form 10-K for the year ended December 31, 2010 as filed with the Securities and Exchange Commission on March 24, 2011 (the "Report"), I, Andrey Semechkin, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

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

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

Date: March 24, 2011

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

Exhibit 32.2

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

In connection with the Annual Report of International Stem Cell Corporation (the "Company") on Form 10-K for the year ended December 31, 2010 as filed with the Securities and Exchange Commission on March 24, 2011 (the "Report"), I, Ray Wood, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

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

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

Date: March 24, 2011

/s/ Ray Wood

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