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

FORM 10-K/A
Amendment No. 1

☒ **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 (State of other jurisdiction of incorporation or organization)	**20-4494098** (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.

EXPLANATORY NOTE

We are filing this Amended Annual Report on Form 10-K/A (the "Amended Filing" or "Form 10-K/A") to our Annual Report on Form 10-K for the Year Ended December 31, 2010 (the "Original Filing") to amend and restate our audited financial statements and related disclosures for the year ended December 31, 2010 as discussed in Note 2 to the accompanying restated audited financial statements.

Background of the Restatement

On May 25, 2011, the Company concluded, based on the recommendation of management, that the previously issued financial statements for the years ended December 31, 2010 and 2009 included in the Company's most recently filed Form 10-K, and each of the quarterly periods from March 31, 2009 through September 30, 2010 included in the Company's quarterly reports on Forms 10-Q (collectively, the "Affected Periods") are no longer reliable because they failed to incorporate non-cash charges resulting from required adjustments to certain outstanding warrants (the "Warrants").

An explanation of the errors and the impact on the Company's financial statements is contained in Note 2 to the financial statements contained in Part II, Item 8 of this report. The following is a brief summary of the accounting errors:

(a) The Company adopted the FASB Emerging Issues Task Force's Issue No 07-5, "Determining Whether an Instrument (or Embedded Feature) is Indexed to an Entity's own Stock" ("EITF 07-5"), now codified in ASC 815-40, as of January 1, 2009. EITF 07-5 provides guidance as to assessing equity versus liability treatment and classification for equity-linked financial instruments, including stock purchase warrants. Upon the adoption of EITF 07-5, the Company did not properly assess the impacts of certain non-standard anti-dilution provisions that existed in certain then-outstanding stock purchase warrants, resulting in equity (versus liability) treatment and classification.

(b) Since the Company needed to restate its financial statements from the error noted above, we decided to correct another error we noted. In early 2009, the Company issued Series D Preferred Stock, which earns a cumulative dividend at a rate of 10% (approximately $107,000 per quarter), payable 15 days after each quarter end. From inception, the Company did not accrue this dividend but instead recorded the dividend when paid. During the first quarter 2011, the Company started to accrue the dividend which caused the dividend expense to double. The company decided to correct this issue by restating the 2009 and 2010 financial statements by accruing dividends payable.

Restatement of Other Financial Statements

While we are filing this Form 10-K/A, we are not concurrently filing amendments to our Annual Report on Form 10-K for the year ended 2009 or our Quarterly Reports on Form 10-Q in 2009 and 2010 for each of the quarterly periods ended March 31, June 30 and September 30. This Amendment No. 1 to our Annual Report on Form 10-K is being filed to restate our financial statements as of December 31, 2009 and 2010, for the years then ended, and for the period from inception through December 31, 2010 and related footnote disclosures. Additional information about the effects of the restatement on the previously reported financial statements for the Affected Periods is contained in Note 2 to the restated financial statements included with this filing.

Internal Control Considerations

Management determined that there was a control deficiency in its internal control that constitutes a material weakness, as discussed in Part II – Item 9A of the Amended Filing. A material weakness is a deficiency, or combination of control deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. For a discussion of management’s consideration of the Company’s disclosure controls and procedures and the material weakness identified, see Part II – Item 9A included in this Amended Filing.

This Amended Filing sets forth the complete text of the following items of the Original Filing as modified where necessary to reflect the restatement.

- Part II — Item 8. Financial Statements;
- Part II — Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations; and
- Part II — Item 9A. Controls and Procedures

In accordance with applicable SEC rules, this Amended Filing includes certifications from our Chief Executive Officer and Chief Financial Officer dated as of the date of this filing.

Except for the items noted above, no other information included in the Original Filing is being amended by this Amended Filing. The Amended Filing continues to speak as of the date of the Original Filing and we have not updated the filing to reflect events occurring subsequently to the Original Filing date other than those associated with the restatement of the Company’s financial statements. Accordingly, this Amended Filing should be read in conjunction with our filings made with the SEC subsequent to the filing of the Original Filing.

PART II

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.

Restatements

On January 1, 2009, we adopted new accounting guidance (ASC 815-40, formerly EITF 07-5 "Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock") that required additional analysis as to whether or not stock purchase warrants are "indexed to" our stock, a condition that is required to attain equity accounting and classification. Upon the adoption of this new guidance, we concluded that our previously issued stock purchase warrants related to the placement agent services were classified as equity and, therefore, the adoption of the new guidance did not have any impact on our historical financial statements or on our 2009 and 2010 financial statements.

In connection with 2011 first quarterly review, the Company determined that, upon the adoption of the new accounting guidance on January 1, 2009, certain stock purchase warrants issued in 2006 and 2007 should have been appropriately classified as liabilities (and not equity) due to the presence of non-standard anti-dilution provisions in those warrant agreements. These provisions require that the Company modify those existing warrants (as to the actual number of shares issuable per each warrant and their exercise price) in the event that the Company subsequently issues equity at a price below the exercise price of the existing warrants.

As a result, we have restated our financial statements as of December 31, 2010 and 2009 and for the years then ended and for the period from inception through December 31, 2010 to correct for the misapplication of the new accounting guidance related to the accounting and classification of stock purchase warrants. See Note 2 to the financial statements contained in Part II, Item 8 of this report for further discussion.

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 $6,949,029 cash used in operating activities and $624,118 used in investing activities, offset by $12,628,345 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 $6,949,029 for the year end December 31, 2010 was primarily attributable to a net loss of $12,722,980. 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 $3,174,236, change in market value of warrants of $2,500,541, allowance for inventory obsolescence of $15,000, 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 liabilities of $164,019, 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 $12,628,345 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 5 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 $5,335,499 cash used in operating activities and $889,889 used in investment activities, offset by $6,570,395 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 $5,335,499 for the year ended December 31, 2009 was primarily attributable to a net loss of $8,504,110. 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, change in market value of warrants of $1,229,641 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 liabilities of $424,766, 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 $6,570,395 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 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 9A. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2010. The term “disclosure controls and procedures” is defined in Rules 13a-15 and 15d-15 under the Securities and Exchange Act of 1934. Management recognizes that any disclosure controls and procedures no matter how well designed and operated, can only provide reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Management believes that based on the fact that we did not have adequate staffing in 2008 through 2010, the Company’s disclosure controls and procedures were not effective related to the accounting for stock purchase warrants, which caused a material weakness in our internal controls over financial reporting. Based on this, management has reassessed the effectiveness of our disclosure controls and procedures and has determined that they were not effective as of December 31, 2009 and 2010.

Restatement of Consolidated Financial Statements

On May 25, 2011, the Audit Committee of our Board of Directors, determined that the Company’s financial statements for the years ended December 31, 2009 and 2010 and for each of the quarterly periods in those years, should no longer be relied upon because of errors in such financial statements related to the Company’s accounting for warrants issued which include an anti-dilution feature.

The Company’s management and the Audit Committee of the Board of Directors have determined that the financial statements should be restated to reflect these non-cash charges. The Company’s management and the Audit Committee of the Board of Directors have discussed these matters with the Company’s independent registered public accounting firm.

Remediation Plan

Management has been actively engaged in developing a remediation plan to address the material weakness. As part of this remediation plan, the Company is adding additional staff including another staff with SEC experience and we will provide all staff with additional training and education. Implementation of the remediation plan is in process and consists of redesigning quarterly and annual procedures to enhance management’s identification, capture, review, approval and recording of contractual terms included in equity arrangements. Management believes the foregoing efforts will effectively remediate the material weakness.

As the Company continues to evaluate and work to improve its internal control over financial reporting, management may execute additional measures to address potential control deficiencies or modify the remediation plan described above. Management will continue to review and make necessary changes to the overall design of the Company’s internal control environment, as well as to policies and procedures to improve the overall effectiveness of internal control over financial reporting.

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 not 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.

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: June 22, 2011

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.

As discussed in note 2 to the consolidated financial statements, the consolidated balance sheets, statements of operations, members' deficit and stockholders' equity (deficit) and cash flows for the years ended December 31, 2010 and 2009 and for the period from inception (August 17, 2001) through December 31, 2010 have been restated.

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 (except for notes 1, 2 and 10,
as to which the date is June 22, 2011)

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

Consolidated Balance Sheets

	December 31, 2010 (Restated)	December 31, 2009 (Restated)
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 liabilities	545,781	631,762
Deferred revenue	759,667	—
Convertible debt and advances	250,000	250,000
Warrants to purchase common stock	2,399,605	2,220,470
Related party payable	—	469,673
Total liabilities	4,537,877	3,940,955
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 3,000,043 issued and outstanding 2010 and 2009, respectively	2,800	3,000
Subscription receivable on common stock	(4,875)	(2,708,988)
Additional paid-in capital	56,170,006	36,950,141
Deficit accumulated during the development stage	(50,853,771)	(36,569,930)
Total stockholders' equity (deficit)	5,388,931	(2,269,742)
Total liabilities and stockholders' equity (deficit)	$ 9,926,808	$ 3,704,501

See accompanying notes to consolidated financial statements

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

Consolidated Statements of Operations (A Development Stage Company)

	Year Ended December 31, 2010 (Restated)	Year Ended December 31, 2009 (Restated)	Inception (August 17, 2001) through December 31, 2010 (Restated)
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	(2,500,541)	(1,229,641)	(3,730,182)
Sublease income	252,204	9,100	298,433
Total other income (loss)	(2,260,936)	(1,305,181)	(5,674,073)
Loss before tax	(12,722,980)	(8,504,110)	(43,738,629)
Provision for income taxes	—	—	6,800
Net loss	$(12,722,980)	$ (8,504,110)	$ (43,745,429)
Dividend on preferred stock	(1,560,861)	(4,395,661)	(7,538,149)
Net loss attributable to common stockholders	$(14,283,841)	$(12,899,771)	$ (51,283,578)

Net loss per common share—basic and diluted	$ (0.21)	$ (0.28)	n/a
Weighted average shares—basic and diluted	68,761,650	46,418,635	n/a

See accompanying notes to consolidated financial statements

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

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

	Common Stock Shares	Common Stock Amount	Preferred Stock Issued Shares	Preferred Stock Issued Amount	Preferred Stock Note Subscription on Perpetual/Preferred	Subscription Receivable	Additional Paid-in Capital (Restated)	Accumulated Deficit (Restated)	Total Stockholders' Equity (Restated)	Members' Deficit
Balance at August 17, 2001	—	$ —	—	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Members contribution										100,000
Net loss for the period from inception										(140,996)
Balance at December 31, 2001										(40,996)
Members contributions										250,000
Net loss for the year ended										(390,751)
Balance at December 31, 2002										(181,747)
Members contributions										195,000
Net loss for the year ended										(518,895)
Balance at December 31, 2003										(505,642)
Members contribution										1,110,000
Net loss for the year ended										(854,718)
Activity through December 31, 2004										(250,360)
Members contributions										780,000
Net loss for the year ended December 31, 2005										(1,385,745)
Balance at December 31, 2005										(856,105)
Members contribution										250,000
Effect of the Reorganization Transactions	20,000,000	20,000					2,665,000	(3,291,105)	(606,105)	606,105
BTHC transactions	2,209,993	2,210					(2,210)		—	
Offering costs							(2,778,082)		(2,778,082)	
Warrants issued for equity placement services							1,230,649		1,230,649	

Warrants issued for services							222,077		222,077	
Warrants issued with promissory note							637,828		637,828	
Common stock issued for services	1,350,000	1,350					1,348,650		1,350,000	
Issuance of common stock	10,436,502	10,436					10,371,512		10,381,948	
Stock-based compensation							842,374		842,374	
Net loss for the year ended December 31, 2006								(6,583,927)	(6,583,927)	
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					279,376		282,887	
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							(1,703,526)	429,807	(1,273,719)
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)			(8,504,110)	(8,513,098)
Balance at December 31, 2009	56,034,835	$56,035	3,000,043	$3,000	$(2,708,988)	—	$36,950,141	$(36,569,930)	$(2,269,742)

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					1,536,393		1,537,924	
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										
Warrants reclassed to equity							804,971		804,971	
Deemed dividend on preferred stock								(1,036,778)	(1,036,778)	
Accrued and paid dividend on preferred stock								(524,083)	(524,083)	
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)			(12,722,980)	(12,748,602)	
Balance at December 31, 2010	74,771,107	$74,771	2,800,043	$2,800	$ —	$(4,875)	$56,170,006	$(50,853,771)	$ 5,388,931	—

See accompanying notes to consolidated financial statements

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

Consolidated Statements of Cash Flows

	Year Ended December 31, 2010 (Restated)	Year Ended December 31, 2009 (Restated)	Inception (August 17, 2001) through December 31, 2010 (Restated)
Cash flows from operating activities			
Net loss	$(12,722,980)	$(8,504,110)	$ (43,745,429)
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	2,500,541	1,229,641	3,730,182
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 liabilities	164,019	424,766	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	(6,949,029)	(5,335,499)	(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	(428,821)	(223,836)	(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	12,628,345	6,570,395	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
Cashless exercise of warrants	$ 1,537,923	$ 282,887	$ 1,820,810

See accompanying 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 5.

Long-Lived Asset Impairment

The Company reviews long-lived assets for impairment when events or changes in business conditions indicate that their carrying value may not be recovered. The Company considers assets to be impaired and writes them down to fair value if expected associated cash flows are less than the carrying amounts. Fair value is the present value of the associated cash flows. The Company has determined that no material long-lived assets are impaired at 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	$2,399,605	$ —	$ —	$2,399,605

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), valuation of equity instruments using the Black-Scholes option pricing model, (e.g., warrants, and stock options) and valuation of equity instruments using the Monte-Carlo simulation model for its warrants with anti-dilution provisions. 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.

Note 2—Restatement of Financial Statements

Historically, the Company has issued stock purchase warrants as part of various financings and as compensation to consultants for various services. Prior to January 1, 2009, the Company assessed whether or not stock purchase warrants should be accounted for and classified as equity or liabilities based on the accounting guidance in effect at the time.

On January 1, 2009, the Company adopted new accounting guidance (ASC 815-40, formerly EITF 07-5 "Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock") that required additional analysis as to whether or not stock purchase warrants are "indexed to" its stock, a condition that is required to attain equity accounting and classification. Upon the adoption of this new guidance, the Company concluded that its previously issued stock purchase warrants related to the placement agent services were appropriately classified as equity and, therefore, the adoption of the new guidance did not have any impact on its historical financial statements or on its 2009 and 2010 financial statements.

In connection with the 2011 first quarterly review, the Company determined that, upon the adoption of the new accounting guidance on January 1, 2009, certain stock purchase warrants issued in 2006 and 2007 should have been appropriately classified as liabilities (and not equity) due to the presence of non-standard anti-dilution provisions in those warrant agreements. These provisions require that the Company modify those existing warrants (as to the actual number of shares issuable per each warrant and their exercise price) in the event that the Company subsequently issues equity at a price below the exercise price of the existing warrants.

In early 2009, the Company issued Series D Preferred Stock, which earns a cumulative dividend at a rate of 10% (approximately $107,000 per quarter), payable 15 days after each quarter end. From inception, the Company did not accrue this dividend but instead recorded the dividend when paid. During the first quarter 2011, the Company started to accrue the dividend which caused the dividend expense to double. The company decided to correct this issue by restating the 2009 and 2010 financial statements by accruing dividends payable.

As a result, the Company has restated its financial statements as of December 31, 2010 and 2009 and for the years then ended and the period from inception through December 31, 2010 to correct for the misapplication of the new accounting guidance related to the accounting and classification of stock purchase warrants. This correction resulted in adjustments to the following financial statement line items as of and for the periods indicated.

The effect on the Company's previously issued quarterly and annual financial statements are summarized as follows:

	Amount in $000s (except per share amounts)									
	Q1 2009	Q2 2009	Q3 2009	Q1 2010	Q2 2010	Q3 2010	YE2009	YE2010	Total Effect of Change for 2009 and 2010	Inception (August 17, 2001) through December 31, 2010
AS REPORTED										
Balance Sheet										
Accrued liabilities	$ 202	$ 817	$ 863	$ 560	$ 492	$ 580	$ 632	$ 439	$ 439	$ 439
Warrants to purchase common stock	—	2,661	2,253	6,081	—	—	1,103	—	—	—
Total liabilities	1,473	4,731	4,647	7,922	1,493	1,528	2,824	2,031	2,031	2,031
Additional paid in capital	28,866	29,283	32,708	43,798	51,857	53,155	38,067	55,749	55,749	55,749
Deficit accumulated during the development stage	(27,585)	(31,705)	(34,362)	(44,933)	(42,312)	(45,264)	(36,570)	(47,926)	(47,926)	(47,926)
Total stockholders' equity (deficit)	1,325	(1,373)	(1,602)	(6,857)	9,620	7,965	(1,152)	7,896	7,896	7,896
Statement of Members' Deficit and Stockholders' Equity (Deficit)										
Additional paid-in capital	28,866	29,283	32,708	43,798	51,857	53,155	38,067	55,749	55,749	55,749
Cumulative effect adjustment—warrant liabilities	—	(301)	(301)	—	—	—	(301)	—	(301)	(301)
Dividend on preferred stock	(1,480)	(1,480)	(2,480)	(1,238)	(1,238)	(1,252)	(4,396)	(1,454)	(5,850)	(7,431)
Net income (loss)	(1,957)	(5,824)	(7,481)	(7,125)	(4,504)	(7,442)	(7,773)	(9,903)	(17,676)	(40,495)
Accumulated deficit	(27,585)	(31,705)	(34,362)	(44,933)	(42,312)	(45,264)	(36,570)	(47,926)	(47,926)	(47,926)
Total stockholders' equity (deficit)	1,325	(1,373)	(1,602)	(6,857)	9,620	7,965	(1,152)	7,896	7,896	7,896
Statement of Operations	*(1)*	*(1)*	*(1)*	*(1)*	*(1)*	*(1)*	*(1)*	*(1)*		
Change in market value of warrants	—	(2,056)	408	(4,957)	5,276	—	(498)	320	(178)	(480)
Total other income (loss)	(72)	(2,128)	401	(4,957)	5,272	2	(574)	559	(15)	(2,424)
Income (loss) before tax	(1,957)	(4,226)	(1,657)	(7,125)	2,419	(2,938)	(7,773)	(9,903)	(17,676)	(40,488)
Net income (loss)	(1,957)	(4,226)	(1,657)	(7,125)	2,419	(2,938)	(7,773)	(9,903)	(17,676)	(40,495)
Dividend on preferred stock	(1,480)	—	(1,000)	(1,238)	—	(14)	(4,396)	(1,454)	(5,850)	(7,431)
Net income (loss) attributable to common stockholders	(3,437)	(4,226)	(2,657)	(8,363)	2,419	(2,952)	(12,168)	(11,356)	(23,524)	(47,926)
Earnings (loss) per share—basic	(0.09)	(0.10)	(0.06)	(0.14)	0.04	(0.04)	(0.26)	(0.17)		
Earnings (loss) per share—diluted	(0.09)	(0.10)	(0.06)	(0.14)	0.02	(0.04)	(0.26)	(0.17)		
Statement of Cash Flows	*(2)*	*(2)*	*(2)*	*(2)*	*(2)*	*(2)*				

Net loss	(1,957)	(5,824)	(7,481)	(7,125)	(4,504)	(7,442)	(7,773)	(9,903)	(17,676)	(40,495)
Change in market value of warrants	—	2,056	1,648	4,957	(320)	(320)	498	(320)	178	480
Increase (decrease) in accrued liabilities	(78)	335	381	(72)	(140)	(52)	532	57	589	830
Net cash used in operating activities	(1,232)	(2,498)	(3,546)	(1,450)	(3,878)	(5,522)	(5,228)	(7,056)	(7,056)	(28,048)
Net cash used in investing activities	(95)	(343)	(768)	(132)	(357)	(500)	(890)	(624)	(624)	(3,230)
Payment of preferred stock dividends	—	—	—	(106)	(106)	(120)	(331)	(322)	(653)	(653)
Net cash provided by financing activities	1,900	3,612	4,319	3,372	11,140	11,253	6,463	12,735	12,735	37,060
Net change in cash	573	771	5	1,790	6,905	5,231	345	5,055	5,055	5,782
Non-cash financing activities:										
Cashless exercise of warrants	—	—	—	—	—	—	—	—	—	—
Dividend on preferred stock exchanged for note receivable	—	—	—	—	—	—	—	95	95	95
ADJUSTMENTS										
Balance Sheet										
Accrued liabilities	—	—	—	—	—	—	—	107	107	107
Warrants to purchase common stock	1,586	2,186	1,781	3,180	1,262	1,343	1,117	2,400	2,400	2,400
Total liabilities	1,586	2,186	1,781	3,180	1,262	1,343	1,117	2,507	2,507*(4)*	2,507
Additional paid in capital	(1,400)	(1,117)	(1,117)	295	406	406	(1,117)	420	420	420
Deficit accumulated during the development stage	(186)	(1,069)	(664)	(3,475)	(1,668)	(1,749)	—	(2,927)	(2,927)	(2,927)
Total stockholders' equity (deficit)	(1,586)	(2,186)	(1,781)	(3,180)	(1,262)	(1,343)	(1,117)	(2,507)	(2,507)	(2,507)
Statement of Members' Deficit and Stockholders' Equity (Deficit)										
Additional paid-in capital	(1,400)	(1,117)	(1,117)	295	406	406	(1,117)	420	420	420
Cumulative effect adjustment—warrant liabilities	731	731	731	—	—	—	731	—	731	731
Dividend on preferred stock	—	—	—	—	—	—	—	(107)	(107)	(107)
Net income (loss)	(917)	(1,800)	(1,395)	(3,475)	(1,668)	(1,749)	(731)	(2,820)	(3,551)	(3,551)
Accumulated deficit	(186)	(1,069)	(664)	(3,475)	(1,668)	(1,749)	—	(2,927)	(2,927)	(2,927)
Total stockholders' equity (deficit)	(1,586)	(2,186)	(1,781)	(3,180)	(1,262)	(1,343)	(1,117)	(2,507)	(2,507)	(2,507)
Statement of Operations										

Change in market value of warrants	(917)	(883)	405	(3,475)	1,807	(81)	(731)	(2,820)	(3,551)*(3)*	(3,250)
Total other income (loss)	(917)	(883)	405	(3,475)	1,807	(81)	(731)	(2,820)	(3,551)	(3,250)
Income (loss) before tax	(917)	(883)	405	(3,475)	1,807	(81)	(731)	(2,820)	(3,551)	(3,250)
Net income (loss)	(917)	(883)	405	(3,475)	1,807	(81)	(731)	(2,820)	(3,551)	(3,250)
Dividend on preferred stock	—	—	—	—	—	—	—	(107)	(107)	(107)
Net income (loss) attributable to common stockholders	(917)	(883)	405	(3,475)	1,807	(81)	(731)	(2,927)	(3,658)	(3,358)
Earnings (loss) per share—basic	(0.03)	(0.02)	0.01	(0.06)	0.03	(0.00)	(0.02)	(0.04)		
Earnings (loss) per share—diluted	(0.03)	(0.02)	0.01	(0.06)	0.02	(0.00)	(0.02)	(0.04)		
Statement of Cash Flows										
Net loss	(917)	(1,800)	(1,395)	(3,475)	(1,668)	(1,749)	(731)	(2,820)	(3,551)	(3,250)
Change in market value of warrants	917	1,800	1,395	3,475	1,668	1,749	731	2,820	3,551	3,250
Increase in accrued liabilities	—	—	—	—	—	—	(107)	107	—	—
Net cash used in operating activities	—	—	—	—	—	—	(107)	107	—	—
Net cash used in investing activities	—	—	—	—	—	—	—	—	—	—
Payment of preferred stock dividends	—	—	—	—	—	—	107	(107)	—	—
Net cash provided by financing activities	—	—	—	—	—	—	107	(107)	—	—
Net change in cash	—	—	—	—	—	—	—	—	—	—
Non—cash financing activities:										
Cashless exercise of warrants	—	283	283	1,412	1,523	1,523	283	1,537	1,820	1,820
Dividend on preferred stock exchanged for note receivable	—	—	—	—	—	—	33	—	33	33
AS RESTATED										
Balance Sheet										
Accrued liabilities	202	817	863	560	492	580	632	546	546	546
Warrants to purchase common stock	1,586	4,847	4,033	9,261	1,262	1,343	2,220	2,400	2,400	2,400
Total liabilities	3,059	6,917	6,428	11,102	2,755	2,871	3,941	4,538	4,538	4,538
Additional paid in capital	27,466	28,166	31,591	44,093	52,264	53,561	36,950	56,170	56,170	56,170
Deficit accumulated during the development stage	(27,771)	(32,774)	(35,026)	(48,408)	(43,980)	(47,014)	(36,570)	(50,854)	(50,854)	(50,854)

Total stockholders' equity (deficit)	(261)	(3,559)	(3,382)	(10,037)	8,358	6,623	(2,270)	5,389	5,389	5,389
Statement of Members' Deficit and Stockholders' Equity (Deficit)										
Additional paid—in capital	27,466	28,166	31,591	44,093	52,264	53,561	36,950	56,170	56,170	56,170
Cumulative effect adjustment—warrant liabilities	731	430	430	—	—	—	430	—	430	430
Dividend on preferred stock	(1,480)	(1,480)	(2,480)	(1,238)	(1,238)	(1,252)	(4,396)	(1,561)	(5,957)	(7,538)
Net income (loss)	(2,874)	(7,624)	(8,876)	(10,600)	(6,172)	(9,191)	(8,504)	(12,723)	(21,227)	(44,047)
Accumulated deficit	(27,771)	(32,774)	(35,026)	(48,408)	(43,980)	(47,014)	(36,570)	(50,854)	(50,854)	(50,854)
Total stockholders' equity (deficit)	(261)	(3,559)	(3,382)	(10,037)	8,358	6,623	(2,270)	5,389	5,389	5,389
Statement of Operations										
Change in market value of warrants	(917)	(2,939)	814	(8,431)	7,083	(81)	(1,230)	(2,501)	(3,731)	(3,730)
Total other income (loss)	(989)	(3,011)	807	(8,432)	7,079	(79)	(1,305)	(2,261)	(3,566)	(5,674)
Income (loss) before tax	(2,874)	(5,109)	(1,252)	(10,600)	4,226	(3,019)	(8,504)	(12,723)	(21,227)	(43,739)
Net income (loss)	(2,874)	(5,109)	(1,252)	(10,600)	4,226	(3,019)	(8,504)	(12,723)	(21,227)	(43,745)
Dividend on preferred stock	(1,480)	—	(1,000)	(1,238)	—	(14)	(4,396)	(1,561)	(5,957)	(7,538)
Net income (loss) attributable to common stockholders	(4,354)	(5,109)	(2,252)	(11,838)	4,226	(3,034)	(12,900)	(14,284)	(27,182)	(51,284)
Earnings (loss) per share—basic	(0.12)	(0.12)	(0.05)	(0.20)	0.07	(0.04)	(0.28)	(0.21)		
Earnings (loss) per share—diluted	(0.12)	(0.12)	(0.05)	(0.20)	0.05	(0.04)	(0.28)	(0.21)		
Statement of Cash Flows										
Net loss	(2,874)	(7,624)	(8,876)	(10,600)	(6,172)	(9,191)	(8,504)	(12,723)	(21,227)	(43,745)
Change in market value of warrants	917	3,856	3,043	8,431	1,348	1,429	1,230	2,501	3,731	3,730
Increase in accrued liabilities	(78)	335	381	(72)	(140)	(52)	425	164	589	830
Net cash used in operating activities	(1,232)	(2,498)	(3,547)	(1,450)	(3,878)	(5,522)	(5,335)	(6,949)	(7,056)	(28,048)
Net cash used in investing activities	(95)	(343)	(768)	(132)	(357)	(500)	(890)	(624)	(624)	(3,230)
Payment of preferred stock dividends	—	—	—	(106)	(106)	(120)	(224)	(429)	(653)	(653)
Net cash provided by financing activities	1,900	3,612	4,319	3,372	11,140	11,253	6,570	12,628	12,735	37,060
Net change in cash	573	771	5	1,790	6,905	5,231	345	5,055	5,055	5,782
Non—cash financing activities:										

Cashless exercise of warrants	—	283	283	1,412	1,524	1,524	283	1,537	1,820	1,820
Dividend on preferred stock exchanged for note receivable	—	—	—	—	—	—	33	95	129	129

(1) Yearend 2009 and 2010 are for the entire year, as fourth quarters were not reported in the annual 10-K financial statements.

(2) Cash flow for the quarters represent year-to-date numbers as quarter-to-date numbers are not presented in the quarterly 10-Q financial statements.

(3) The "change in value of warrants" is a noncash gain (loss) and has no effect on cash flows as reported.

(4) The "liability" will be liquidated by reclassification to "additional paid-in capital" and has not, and will not, affect cash flows.

(5) As of the first quarter 2012, all of the warrants will have been exercised or expired, and the net, end result of all the noncash transactions will be the accumulated gains (losses) will be reflected in "accumulated deficit" and "additional paid-in capital" in equal amounts.

(6) Valuation of the warrants were estimated using the Monte-Carlo simulation method using the following assumptions: stock price and warrant price as of the valuation date, the Company's historical stock price, U.S. T-Notes, Dividends on Series D Preferred Stock, warrant expiration, simulated as a daily interval and anti-dilution impact if we had to raise capital below $0.25 per share.

3. 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

4. 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.

5. Patent Licenses

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

On May 14, 2004, Lifeline amended the licensing agreement with ACT for the exclusive worldwide patent rights for the following ACT technologies: 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

6. Related Party Payables

The Company has incurred obligations to the following related parties:

	December 31, 2010	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.

Another Related Party transaction related to $99,724 of dividends accrued or paid to X-Master, Inc., which is an entity affiliated with our Chief Executive Officer and a director Dr. Andrey Semechkin and Dr. Ruslan Semechkin Vice President of International Stem Cell and a director and $329,096 of dividends accrued or paid to our Chief Executive Officer and a director Dr. Andrey Semechkin. The dividends accrued or paid to both X-Master and our Chief Executive Officer and a director Dr. Andrey Semechkin related to dividends that are payable quarterly to holders of Series D Preferred Stock. The dividends payable are recorded as part of accrued expenses as of December 31, 2010.

7. 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

8. 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. See Note 10 for warrants issued to private place agent (Brookstreet Warrants).

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.

9. 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	$ —	$ —

10. 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 with 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. 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 per share. 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. 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%. 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. 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 $0.80 per share. 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 valued the warrants issued to the individuals using the Black-Scholes pricing model and the following assumptions: contractual term of 3 years, an average risk free interest rate of 5.13%, a dividend yield of 0%, and volatility of 63%.

Additionally, in 2006, the Company issued warrants to purchase 1,202,856 shares of common stock in connection with certain financing transactions. See Note 7 for further details.

During 2008, the Company raised additional capital by issuing Preferred Series A, B, C and D stock. The 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. The adjustment resulted in the reduction of the exercise price from $1.00 to $0.56, and the increase in the number of shares purchasable for each share warrant from 1 to 1.7857.

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, where an additional 2,000,000 common stock warrants were outstanding and two warrants to purchase shares of common stock with the purchase of one Series B Preferred Stock, where an additional 1,100,000 common stock warrants were outstanding. As of 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.

On January 1, 2009, the Accounting Standards Codification (ASC) 815-40-15 (EITF 07-5, Determining Whether an Instrument (or Embedded Feature) is Indexed to an Entity's Own Stock Price became effective for the Company. The EITF adds another criteria for determining whether an instrument is indexed to an entity's own stock. It requires an evaluation of contingency provisions and of settlement provisions. The anti-dilution provisions of the Brookstreet Warrants failed the new criteria set by this EITF and therefore required reclassification from equity to liability. The reclassification resulted in the revaluation of the Brookstreet Warrants at each reporting period with a corresponding charge or credit to the income statement. Valuation of the warrants was estimated using the Monte-Carlo simulation method using the following assumptions: stock price and warrant price as of the valuation date, the Company's historical stock price, U.S. T-Notes, Dividends on Series D Preferred Stock, warrant expiration, simulated as a daily interval and anti-dilution impact if we had to raise capital below $0.25 per share. The reclassification and valuation of the warrants resulted in an increase in liabilities of $2,399,605 and $1,117,247, and a charge to income of $2,820,282 and $731,458 respectively, for the years ended December 31, 2010 and 2009, respectively. See Note 2 for further discussion.

11. 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	$1,744,030

12. 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 its 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) and on Form S-3 (No. 333-171233) of our report dated March 24, 2011 (except for notes 1, 2 and 10, as to which the date is June 22, 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/A.

/s/ Vasquez & Company LLP

Los Angeles, California
June 22, 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/A 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: June 22, 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/A 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: June 22, 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/A for the year ended December 31, 2010 as filed with the Securities and Exchange Commission on June 22, 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: June 22, 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/A for the year ended December 31, 2010 as filed with the Securities and Exchange Commission on June 22, 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: June 22, 2011

/s/ Ray Wood

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