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

FORM 10-Q/A
(Amendment No. 1)

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

For the quarterly period ended March 31, 2011

Commission File Number: 0-51891

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

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

5950 Priestly Drive
Carlsbad, CA 92008
(Address of Principal Executive Offices)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES ☐ NO ☐

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

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

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

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

As of June 17, 2011 the Registrant had 76,299,928 shares of Common Stock outstanding.

EXPLANATORY NOTE

We filed an Amended Annual Report on Form 10-K/A for the Year Ended December 31, 2010. The nature of the restatement related to the Company incorrectly accounting for certain warrants since we did not properly apply FASB ASC 815-40-15 (formerly known as EITF 07-5 "Determining Whether an Instrument (or Embedded Feature) is Indexed to an Entity's Own Stock Price"), for the accounting of these warrants. Therefore, we restated our audited financial statements and related disclosures for the year ended December 31, 2010 as discussed in Note 2 to the Form 10-K/A.

Background of the Restatement

On May 25, 2011, International Stem Cell and Subsidiaries ("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").

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. FASB ASC 815-40 provides guidance as to assessing equity versus liability treatment and classification for equity-linked financial instruments, including stock purchase warrants. Upon the adoption of FASB ASC 815-40, 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. The Company decided to correct this issue by restating the 2009 and 2010 financial statements by accruing dividends payable.

In this Form 10-Q/A, for the three months ended March 31, 2011 we have restated the 2010 comparative periods for the issues noted above.

We also filed an Amended 10-Q for the first quarter ended March 31, 2011 on Form 10-Q/A. The nature of this restatement related to the Company incorrectly accounting for a Term Sheet ("arrangement") related to its Lifeline Skin Care, LLC ("skincare") products and we did not accrue amounts owed on this arrangement in the periods that related to net revenue generated within the reporting period. Therefore, we restated our unaudited financial statements and related disclosures for the quarter ended March 31, 2011 as discussed in Note 2 to the Form 10-Q/A.

Background of the Restatement

On August 15, 2011, International Stem Cell and Subsidiaries ("the Company") concluded, based on the recommendation of management, that the previously issued financial statements for the quarter ended March 31, 2011 included in the Company's most recently filed Form 10-Q, are no longer reliable because they failed to incorporate marketing expenses related to an arrangement with a third party for marketing services performed.

The following is a brief summary of the accounting correction:

The Company signed a Term Sheet ("arrangement") in late 2010 with a third party marketing organization who would serve as a consultant and assist in marketing and help SkinCare sell its skin care products through various proprietary mailings. As part of the arrangement, a test phase would take place during which SkinCare would pay 40% on net profits as defined in the arrangements generated from the proprietary mailings. The Company incorrectly did not accrue for marketing expenses related to net profits as defined in the arrangement for the quarter ended March 31, 2011. The amount of marketing expenses related to the arrangement was $304,983 for the quarter ended March 31, 2011. However, the Company incorrectly recorded marketing expenses of $150,000 related to the arrangement in the fourth quarter of 2010. The impact of this error was to overstate the deficit accumulated during the development stage by $150,000 and understate current assets (prepaid marketing expense) by $150,000 as of December 31, 2010. After careful consideration of applicable guidance, management believes the impact on quarter and year ended December 31, 2010 is immaterial. This decision was based on qualitative factors in the guidance, such as, that the impact of the error does not mask a change in earnings or other trends, it does not change a loss into income, it does not affect compliance with loan covenants, other contractual requirements or regulatory requirements, and it does not involve concealment of an unlawful transaction, and neither was it intentional or an indicator of an illegal act. Additionally, the Company is a development stage entity that has incurred losses of approximately $53 million from its inception, and management believes that a misstatement of a magnitude noted above would not significantly impact investors' decisions to invest in our company.

The Company has elected to correct the impact related to the 2010 error in the period ended March 31, 2011. Management believes the impact of this correction on the quarter ended March 31, 2011 is immaterial. This decision was based on the following qualitative factors that the impact of the error does not mask a change in earnings or other trends, it does not change a loss into income, it does not affect compliance with loan covenants, other contractual requirements or regulatory requirements, and it does not involve concealment of an unlawful transaction, and neither was it intentional or an indicator of an illegal act.

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 I – Item 1. Financial Statements;
- Part I – Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations; and
- Part I – Item 4. 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.

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(A Development Stage Company)
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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

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

	March 31, 2011 (Restated)(1) (Unaudited)	December 31, 2010 (Restated)(1)
Assets		
Cash and cash equivalents	$ 5,302,685	$ 5,782,027
Accounts receivable	275,599	738,506
Inventory	1,112,192	856,083
Prepaid expenses and other current assets	250,653	228,338
Total current assets	6,941,129	7,604,954
Property and equipment, net	1,485,034	1,295,328
Patent licenses, net	994,578	986,714
Deposits and other assets	28,054	39,812
Total assets	$ 9,448,795	$ 9,926,808
Liabilities and Stockholders' Equity		
Accounts payable	$ 1,103,809	$ 582,824
Accrued expenses	521,789	545,781
Deferred revenue	252,793	759,667
Advances	250,000	250,000
Warrants to purchase common stock	1,505,840	2,399,605
Total current liabilities	3,634,231	4,537,877
Commitments and contingencies		
Stockholders' Equity		
Common stock, $.001 par value, 200,000,000 shares authorized, 75,993,528 shares and 74,771,107 shares issued and outstanding at March 31, 2011 and December 31, 2010, respectively	75,993	74,771
Convertible preferred stock, $.001 par value, 20,000,000 shares authorized, 2,800,043 shares issued and outstanding at March 31, 2011 and December 31, 2010, respectively	2,800	2,800

Subscription receivable on common stock	(666)	(4,875)
Additional paid-in capital	58,290,719	56,170,006
Deficit accumulated during the development stage	(52,554,282)	(50,853,771)
Total stockholders' equity	5,814,564	5,388,931
Total liabilities and stockholders' equity	$ 9,448,795	$ 9,926,808

(1) The Company restated its financial statements for the year ended December 31, 2010 and the quarter ended March 31, 2011, see explanatory note after cover page of this 10-Q/A and Note 1 to the unaudited condensed consolidated financial statements.

See accompanying notes to the unaudited condensed consolidated financial statements.

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

(Unaudited)

	Three Months Ended March 31,		Inception (August 2001) through March 31,
	2011 (Restated)(1)	2010 (Restated)(1)	2011 (Restated)(1)
Revenues			
Product sales	$ 1,514,916	$ 272,626	$ 4,614,081
Royalties and license	—	—	135,000
	1,514,916	272,626	4,749,081
Development expenses			
Cost of sales	428,994	146,376	2,144,466
Research and development	1,003,410	584,069	14,863,688
Marketing	318,206	133,418	2,717,355
General and administrative	2,232,738	1,576,438	25,556,560
Total development expenses	3,983,348	2,440,301	45,282,069
Loss from development activities	(2,468,432)	(2,167,675)	(40,532,988)
Other income (expense)			
Settlement with related company	—	—	(92,613)
Miscellaneous income/(expense)	900	(20,393)	(16,612)
Dividend and interest income	—	25,649	92,875
Interest expense	—	(7,274)	(2,225,074)
Sublease income	2,200	1,400	300,633
Change in market value of warrants	870,849	(8,431,325)	(2,859,333)
Total other income/(expense), net	873,949	(8,431,943)	(4,800,124)
Loss before income taxes	(1,594,483)	(10,599,618)	(45,333,112)
Provision for income taxes	—	—	6,800
Net loss	$(1,594,483)	$(10,599,618)	$(45,339,912)

Dividends on preferred stock	$ (106,028)	$ (1,238,067)	$ (7,644,177)
Net loss attributable to common shareholders	$(1,700,511)	$(11,837,685)	$(52,984,089)
Net loss per share computation:			
Weighted average shares outstanding – Basic and Diluted	75,326,365	60,598,632	
Net loss per share – Basic and Diluted	$ (0.02)	$ (0.20)	

(1) The Company restated its financial statements for the year ended December 31, 2010 and the quarter ended March 31, 2011, see explanatory note after cover page of this 10-Q/A and Note 1 to the unaudited condensed consolidated financial statements.

See accompanying notes to the unaudited condensed consolidated financial statements.

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

	Common Stock		Convertible Preferred Stock Issued							
	Shares	Amount	Shares	Amount	Note Subscription on Perpetual/Preferred	Note Subscription on Receivable	Additional Paid-in Capital (Restated)(1)	Deficit accumulated during the Development Stage (Restated)(1)	Total Stockholders' Equity (Restated)(1)	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	—

	Common Stock		Convertible Preferred Stock Issued							
	Shares	Amount	Shares	Amount	Note Subscription on Perpetual/Preferred	Note Subscription on Receivable	Additional Paid-in Capital (Restated)(1)	Deficit accumulated during the Development Stage (Restated)(1)	Total Stockholders' Equity (Restated)(1)	Members' Deficit
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)

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	Common Stock		Convertible Preferred Stock Issued							
	Shares	Amount	Shares	Amount	Note Subscription on Perpetual/Preferred	Note Subscription on Receivable	Additional Paid-in Capital (Restated)(1)	Deficit accumulated during the Development Stage (Restated)(1)	Total Stockholders' Equity (Restated)(1)	Members' Deficit
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	
Issuance of common stock										
For services	150,000	150					302,850		303,000	
From cashless exercise of warrants	50,621	51					22,866		22,917	
From exercise of options	571,800	571					330,098		330,669	
For cash	450,000	450					576,030		576,480	
Stock-based compensation										

							888,869		888,869
Stock subscription						4,209			4,209
Accrued dividend on preferred stock								(106,028)	(106,028)
Net loss for the quarter ended March 31, 2011								(1,594,483)	(1,594,483)
Balance at March 31, 2011	75,993,528	$75,993	2,800,043	$ 2,800	$ —	$ (666)	$58,290,719	$(52,554,282)	$ 5,814,564

(1) The Company restated its financial statements for the year ended December 31, 2010 and the quarter ended March 31, 2011, see explanatory note after cover page of this 10-Q/A and Note 1 to the unaudited condensed consolidated financial statements.

See accompanying notes to the unaudited condensed consolidated financial statements.

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

(Unaudited)

	Three Months Ended March 31,		Inception (August 2001) through March 31,
	2011 (Restated)(1)	2010 (Restated)(1)	2011 (Restated)(1)
Net loss	$(1,594,483)	$(10,599,618)	$(45,339,912)
Adjustments to reconcile net (loss) to net cash (used in) operating activities:			
Depreciation and amortization	115,936	66,494	1,063,448
Accretion of discount on notes payable	—	—	103,304
Accretion of discount on bridge loans	—	—	637,828
Non-cash warrants for services	—	—	222,077
Non-cash compensation expense	888,869	307,073	5,759,052
Common stock issued for services	303,000	294,000	4,297,470
Amortization of discount on convertible notes	—	—	1,080,962
Interest on perpetual preferred stock notes receivable	—	(25,622)	(34,610)
Change in market value of warrants	(870,849)	8,431,325	2,859,333
Allowance for inventory obsolescence	—	—	15,000
Changes in operating assets and liabilities			
(Increase) decrease in accounts receivable	462,907	(29,065)	(275,599)
(Increase) decrease in inventory	(256,109)	(29,837)	(1,127,192)
(Increase) decrease in prepaid expenses and other current assets	(22,315)	14,269	(250,653)
(Increase) decrease in deposits and other assets	11,758	503	(28,054)
Increase (decrease) in accounts payable	522,164	181,488	1,104,988
Increase (decrease) in accrued expenses	(23,992)	(72,093)	805,784
Increase (decrease) in deferred revenue	(506,874)	—	252,793
Increase (decrease) in related party payables	—	10,778	(164,504)
Net cash used in operating activities	(969,988)	(1,450,305)	(29,018,485)

Investing activities			
Purchases of property and equipment	(283,756)	(66,848)	(2,207,901)
Payments for patent licenses and trademarks	(29,750)	(64,759)	(1,335,158)
Net cash used in investing activities	(313,506)	(131,607)	(3,543,059)
Financing activities			
Proceeds from Members' contributions	—	—	2,685,000
Proceeds from issuance of common stock	576,480	867,158	24,016,210
Proceeds from issuance of preferred stock	—	2,410,750	12,260,750
Proceeds from issuance of convertible promissory notes	—	—	2,099,552
Proceeds from exercise of warrants and options	334,878	—	790,744
Payment of preferred stock dividends	(107,206)	(106,027)	(759,863)
Payment of promissory notes	—	—	(2,202,856)
Payment of offering costs	—	—	(1,760,308)
Proceeds from convertible debt, advances and loan payable	—	200,000	1,360,000
Payment of loan payable	—	—	(625,000)
Net cash provided by financing activities	804,152	3,371,881	37,864,229
Net (decrease) increase in cash and cash equivalents	(479,342)	1,789,969	5,302,685
Cash and cash equivalents, beginning of period	5,782,027	726,829	—
Cash and cash equivalents, end of period	$ 5,302,685	$ 2,516,798	$ 5,302,685
Supplemental disclosures of cash flow information:			
Cash paid for interest	$ —	$ 22,929	$ 371,822

(1) The Company restated its financial statements for the years ended December 31, 2010 and the quarter ended March 31, 2011, see explanatory note after cover page of this 10-Q/A and Note 1 to the unaudited condensed consolidated financial statements.

	Three Months Ended March 31,		Inception (August 2001) through March 31, 2011 (Restated) (1)
	2011 (Restated)(1)	2010 (Restated)(1)	
Cash paid for income taxes	$ —	$ 3,265	$ 11,148
Non-cash financing activities:			
Warrants issued with promissory notes	$ —	$ —	$ 637,828
Warrants issued for placements agent services	$ —	$ —	$1,230,649
Cashless exercise of warrants	$ 22,917	$ 1,412,392	$1,843,726
Deemed dividend on preferred stock	$ —	$ 1,036,778	$6,683,025
Dividend on preferred stock exchange for note receivable	$ —	$ 95,262	$ 95,262
Conversion of debt to common stock	$ —	$ —	$ 500,000
Discounts on convertible debt from beneficial conversion feature	$ —	$ —	$ 641,331
Discounts on convertible debt from warrants	$ —	$ —	$ 269,632
Conversion of preferred stock	$ —	$ 800	$ 2,200
Non-cash sale of preferred stock	$ —	$ —	$ 381,700

(1) The Company restated its financial statements for the year ended December 31, 2010 and the quarter ended March 31, 2011, see explanatory note after cover page of this 10-Q/A and Note 1 to the unaudited condensed consolidated financial statements.

See accompanying notes to the unaudited condensed consolidated financial statements.

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

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Organization and Significant Accounting Policies

Business Combination and Corporate Restructure

BTHC III, Inc. ("BTHC III" or the "Company") was organized in Delaware in June 2005 as a shell company to effect the reincorporation of BTHC III, LLC, a Texas limited liability company. On December 28, 2006, 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. 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, LLC., the wholly-owned subsidiary of ISC California.

The accompanying unaudited condensed consolidated financial statements included herein have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q. They do not include all information and notes required by generally accepted accounting principles for complete financial statements. However, except as disclosed herein, there has been no material change in the information disclosed in the notes to consolidated financial statements included in the annual report on Form 10-K of International Stem Cell Corporation and Subsidiaries for the year ended December 31, 2010. When used in these notes, the terms "Company," "we," "us," or "our" mean International Stem Cell Corporation and all entities included in our unaudited condensed consolidated financial statements.

In the opinion of management, the unaudited condensed consolidated financial information for the interim periods presented reflects all adjustments, consisting of only normal and recurring adjustments, necessary for a fair presentation of the Company's consolidated results of operations, financial position and cash flows. The unaudited condensed consolidated financial statements and the related notes should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2010 included in the Company's annual report on Form 10-K. Operating results for interim periods are not necessarily indicative of the operating results for any interim period or an entire year.

Amended Annual Report

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").

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. FASB ASC 815-40 provides guidance as to assessing equity versus liability treatment and classification for equity-linked financial instruments, including stock purchase warrants. Upon the adoption of FASB ASC 815-40, 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% per annum (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. The Company decided to correct this issue by restating the 2009 and 2010 financial statements by accruing dividends payable.

In this Form 10-Q/A, for the three months ended March 31, 2011, we have restated the 2010 comparative periods for the issues noted above.

Amended Quarterly Report

On August 15, 2011, International Stem Cell and Subsidiaries ("the Company") concluded, based on the recommendation of management, that the previously issued financial statements for the quarter ended March 31, 2011 included in the Company's most recently filed Form 10-Q, is no longer reliable because they failed to incorporate marketing expenses related to an arrangement with a third party for marketing services performed.

The following is a brief summary of the accounting correction:

The Company signed a Term Sheet ("arrangement") in late 2010 with a third party marketing organization who would serve as a consultant and assist in marketing and help SkinCare sell its skin care products through various proprietary mailings. As part of the arrangement, a test phase would take place during which SkinCare would pay 40% on net sales generated from the proprietary mailings. The Company incorrectly did not accrue for marketing expenses related to net profits as defined in the arrangement for the quarter ended March 31, 2011. The amount of marketing expenses related to the arrangement was $304,983 for the quarter ended March 31, 2011. However, the Company incorrectly recorded marketing expenses of $150,000 related to the arrangement in the fourth quarter of 2010. The impact of this error was to overstate the deficit accumulated during the development stage by $150,000 and understate current assets (prepaid marketing expense) by $150,000 as of December 31, 2010. After careful consideration of applicable guidance, management believes the impact on quarter and year ended December 31, 2010 is immaterial. This decision was based on qualitative factors in the guidance, such as, that the impact of the error does not mask a change in earnings or other trends, it does not change a loss into income, it does not affect compliance with loan covenants, other contractual requirements or regulatory requirements, and it does not involve concealment of an unlawful transaction, and neither was it intentional or an indicator of an illegal act. Additionally, the Company is a development stage entity that has incurred losses of approximately $53 million from its inception, and management believes that a misstatement of a magnitude noted above would not significantly impact investors' decisions to invest in our company.

The Company has elected to correct the impact related to the 2010 error in the period ended March 31, 2011. Management believes the impact of this correction on the quarter ended March 31, 2011 is immaterial. This decision was based on the following qualitative factors that the impact of the error does not mask a change in earnings or other trends, it does not change a loss into income, it does not affect compliance with loan covenants, other contractual requirements or regulatory requirements, and it does not involve concealment of an unlawful transaction, and neither was it intentional or an indicator of an illegal act.

The effects on the Company's previously issued quarterly financial statements are summarized below:

				From inception date		
	31-Mar-11 As Reported	31-Mar-11 Adjustments	31-Mar-11 As Restated	31-Mar-11 As Reported	31-Mar-11 Adjustments	31-Mar-11 As Restated
Condensed Consolidated Statement of Financial Condition						
Liabilities and Stockholders' Equity (Deficit)						
Current liabilities						
Accrued liabilities	366,806	154,983	521,789			
Total liabilities	3,479,248		3,634,231			
Stockholders' equity (deficit)						
Deficit accumulated during the development stage	(52,399,299)	(154,983)	(52,554,282)			
Total stockholders' equity (deficit)	5,969,547		5,814,564			

Total liabilities and stockholders' equity (deficit)	9,448,795		9,448,795			
Condensed Consolidated Statement of Operations						
Development expenses						
Marketing	163,223	154,983	318,206	2,562,372	154,983	2,717,355
Total development expenses	(2,313,449)	(154,983)	(2,468,432)	(40,378,005)	(154,983)	(40,532,988)
Net Loss	(1,439,500)	(154,983)	(1,594,483)	(45,184,929)	(154,983)	(45,339,912)
Net loss applicable to common shareholders	(1,545,528)	(154,983)	(1,700,511)	(52,829,106)	(154,983)	(52,984,089)
Net loss per common share – basic and diluted	(0.02)	—	(0.02)			
Weighted average shares – basic and diluted	75,326,365		75,326,365			
Condensed Consolidated Statement of Members' Deficit and Stockholders' Equity						
Accumulated Deficit	52,399,299	154,983	52,554,282			
Total Stockholders' Equity	5,969,547	(154,983)	5,814,564			
Condensed Consolidated Statement of Cash Flows						
Cash flows from operating activities						
Net loss	(1,439,500)	(154,983)	(1,594,483)			
Change in operating assets and liabilities:						
Decrease in accrued liabilities	(178,975)	154,983	(23,992)			
Net cash used in operating activities	(969,988)		(969,988)			

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 I – Item 1. Financial Statements;
- Part I – Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations; and
- Part I – Item 4. Controls and Procedures

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.

Inventories

Inventories are accounted for using the first-in, first-out (FIFO) method and are stated at the lower of cost or market. Lab supplies used in the research and development process are expensed as consumed. Inventory is reviewed periodically for product expiration and obsolescence and adjusted accordingly.

Accounts Receivable

Trade accounts receivable are recorded at the net invoice value and are not interest bearing. Accounts receivable consist of trade accounts receivable from the sales of Lifeline Cell Technology's products and cash withheld by a third party merchant service provider. The amount withheld by the service provider represents a predetermined percentage of cash collected on our behalf from credit card purchases primarily from sales of SkinCare products. 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. As of March 31, 2011 and December 31, 2010, the Company did not have an allowance for bad debt as all accounts receivable were deemed collectible.

Property and Equipment

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

Patent Licenses

Patent licenses consist of acquired research and development rights used in research and development, which have alternative future uses, and capitalized legal costs associated with patent acquisition. Patent licenses are recorded at cost of $1,335,158 and $1,305,408 at March 31, 2011 and December 31, 2010, respectively, and are amortized on a straight-line basis over the shorter of the lives of the underlying patents or the useful lifes of the licenses. Amortization expense for the three months ended March 31, 2011 and 2010 amounted to $21,865 and $16,851, respectively, and is included in research and development expense. Additional information regarding patent licenses is included in Note 4.

Long-lived Asset Impairment

The Company reviews long-lived assets for impairment when events or changes in business conditions indicate that their carrying value may not be recovered. The Company considers assets to be impaired and writes them down to fair value if expected associated cash flows are less than the carrying amounts. Fair value is the present value of the associated cash flows. The Company has determined that no material long-lived assets are impaired at March 31, 2011 and December 31, 2010.

Product Sales

The Company recognizes revenue from product sales 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.

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 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 is presented.

Revenue Arrangements with Multiple Deliverables

Periodically, the Company 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 require the payment of royalties based on the sale of future products. Such royalties arerecorded 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 are classified as a component of cost of sales to the extent such payments become due in the future.

Research and Development Costs

Research and development costs, which are expensed as incurred, are primarily comprised of costs and expenses for salaries and benefits associated with research and development personnel, overhead and occupancy, contract services, and amortization of technology used in research and development with alternative future uses.

Registration Payment Arrangements

The provisions of ASC Topic 825-20, *Financial Instruments – Registration Payment Arrangements*, requires that companies separately recognize and measure registration payment arrangements, whether issued as a separate agreement or included as a provision of a financial instrument or other agreement. Such payments include penalties for failure to effect a registration of securities.

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 as of March 31, 2011 and December 31, 2010. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	Total	Level 1	Level 2	Level 3
ASSETS:				
Cash equivalents as of March 31, 2011	$5,088,564	$5,088,564	$ —	$ —
Cash equivalents as of December 31, 2010	$4,991,931	$4,991,931	$ —	$ —
Warrants to purchase common stock as of March 31, 2011	$1,505,840	$ —	$ —	$1,505,840
Warrants to purchase common stock as of December 31, 2010	$2,399,605	$ —	$ —	$2,399,605

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 March 31, 2011, operating loss carryforwards of approximately $33,894,000, which may be applied against future taxable income and will expire in various years through 2025. At December 31, 2010, the Company had operating loss carryforwards of approximately $32,620,000. The increase in net operating loss carryforwards for the three months ended March 31, 2011 is approximately $1,274,000.

Use of Estimates

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

Concentration of Credit Risk

The Company maintains its cash and cash equivalents in banks located primarily in the United States. At March 31, 2011, all noninterest-bearing transaction accounts are fully insured, regardless of the balance of the account at all FDIC-insured institutions. At March 31, 2011 and December 31, 2010, the Company had $5,088,564 and $4,991,931, respectively, 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 March 31, 2011and December 31, 2010 approximate their fair values because of the short-term nature of those instruments.

Income (Loss) Per Common Share

The computation of net income or loss per common share is based on the weighted average number of shares outstanding during each period. 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 March 31, 2011, there were 6,181,693 warrants, 10,921,600 vested and unvested stock options. These options and warrants were not included in the diluted loss per share calculation because the effect would have been anti-dilutive.

Comprehensive Income

Comprehensive income or loss includes all changes in equity except those resulting from investments by owners and distributions to owners. The Company did not have any items of comprehensive income or loss other than net loss from operations for the three months ended March 31, 2011 and 2010 or the period from inception through March 31, 2011.

Recent Accounting Pronouncements

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.

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.

2. Inventory

The components of inventories are as follows:

	March 31, 2011	December 31, 2010
Raw materials	$ 289,651	$ 196,046
Work in process	3,877	3,877
Finished goods	833,664	671,160
	1,127,192	871,083
Less allowance for inventory obsolescence	(15,000)	(15,000)
	$1,112,192	$ 856,083

3. Property and Equipment

Property and equipment consists of the following:

	March 31, 2011	December 31, 2010
Machinery and equipment	$ 888,966	$ 733,807
Computer equipment	264,304	241,282
Office equipment	171,689	81,068
Leasehold improvements	849,481	834,527
	2,174,440	1,890,684
LessAccumulated depreciation and amortization	(689,406)	(595,356)
	$1,485,034	$ 1,295,328

4. Patent Licenses

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

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

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

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

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

5. Advances

Advance

On June 18, 2008, the Company entered into an agreement with BioTime, Inc. (“Bio Time”), where Bio Time paid an advance of $250,000 to Lifeline to produce, make, and distribute Joint Products. The $250,000 advance will be paid down with the first $250,000 of net revenues that otherwise would be allocated to Lifeline under the agreement. As of March 31, 2011, no revenues have been realized from this agreement.

6. Capital Stock

Common 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.

Series A Preferred Stock

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 $1.00 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, which has been triggered and the new price of the warrants was set at $0.25. 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. As of March 31, 2011 and December 31, 2010, we had 500,000 shares of the Series A Preferred Stock issued and outstanding.

Series B Preferred Stock

On May 12, 2008, to obtain funding for working capital, the Company entered into a series of subscription agreements with a total of five accredited investors for the sale of a total of 400,000 Series B Units, each Series B Unit consisting of one share of Series B Preferred Stock ("Series B Preferred") and two Series B Warrants ("Series B Warrants") to purchase Common Stock for each $1.00 invested. The total purchase price received by the Company was $400,000. The Series B Preferred is convertible into shares of common stock at the initial conversion ratio of two shares of common stock for each share of Series B Preferred converted (which was established based on an initial conversion price of $0.50 per share), and the Series B Warrants were 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 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 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, which has been triggered and the new price of the warrants was set at $0.25. 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. As of March 31, 2011 and December 31, 2010, we had 300,000 shares of the Series B Preferred Stock issued and outstanding.

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.

Fair Value of Warrants for Series A and B Preferred Stock

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 per share. Subsequently, the exercise price for those warrants was adjusted down to $0.25 per share.

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.

Series C Preferred 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 had 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 on August 20, 2008, and 1,300,000 shares of Series C Preferred Stock were sold on September 23, 2008. The beneficial conversion feature for the Series C preferred stock is $720,000. All the Series C Preferred Stock was issued to X-Mater Inc., which is a related party and affiliated with our Chief Executive Officer and Director Dr. Andrey Semechkin and Dr. Ruslan Semechkin, a Vice President of International Stem Cell. As of March 31, 2011 and December 31, 2010, we had 2,000,000 shares of the Series C Preferred Stock issued and outstanding.

Series D Preferred Stock

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) or 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 Series D 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 $4,700,000 in the Series D Preferred Stock round. The beneficial conversion feature from the Series D Preferred Stock is recognized as deemed dividend totaling $2,480,000. Of the Series D Preferred stock issued, 10 shares of the Series D Preferred Stock was issued to X-Mater Inc., which is a related party and affiliated with our Chief Executive Officer and Director Dr. Andrey Semechkin and Dr. Ruslan Semechkin, a Vice President of International Stem Cell and 33 shares of the Series D Preferred Stock was issued to our Chief Executive Officer and Director Dr. Andrey Semechkin. As of March 31, 2011 and December 31, 2010, we had 43 shares of the Series D Preferred Stock issued and outstanding. The Series D Preferred Stock earns cumulative dividends at a rate of 10% per annum, payable 15 days after each quarter end. Dividends accrued as of March 31, 2011 and December 31, 2010 are $106,028 and $107,206, respectively.

Restricted Stock Grants

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.

Series E Preferred Stock

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.

Preferred Stock Amendment

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).

Exchange Agreement Series E Preferred 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.

Series F Preferred Stock

On May 4, 2010, International Stem Cell Corporation entered into a Preferred Stock Purchase Agreement with Socius CG II, Ltd., a Bermuda exempted company (the "Investor"), to sell for up to 10 million dollars ($10,000,000) up to one thousand (1,000) shares of Series F Preferred Stock ("Series F Preferred") at a price of $10,000 per Series F Preferred share. The Company 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.

Exchange Agreement series F Preferred Stock

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.

Common Stock Purchase Agreement

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.

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 agreed 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.

During the quarter ended March 31, 2011, the Company has issued 450,000 shares of common stock under the S-1 to Aspire Capital Group, which raised $576,480 and will be used to fund our operational activities.

7. Related Party Transactions

During the quarter ended March 31, 2011, the Company had two transactions with related parties. The first transaction related to $24,657 of dividends accrued for payment 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 $81,371 of dividends accrued for payment to our Chief Executive Officer and a director Dr. Andrey Semechkin. The dividends payable to both X-Master, Inc. 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 accounts payable as of March 31, 2011.

The second transaction related to an operating lease for our corporate offices with S Real Estate Holdings LLC. 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.

8. Income Taxes

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 three months ended March 31, 2011 and December 31, 2010 follows:

	March 31, 2011	December 31, 2010
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's policy is to recognize interest and penalties on uncertain tax positions in income tax expense.

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:

	March 31, 2011	December 31, 2010
Deferred tax assets (liabilities)		
Net operating loss carryforwards	$ 13,298,000	$ 12,776,000
Accrued expenses	150,000	462,000
Research and Development tax credit (Fed and St.)	438,000	342,000
Deferred tax assets	13,886,000	13,580,000
Valuation allowance	(13,886,000)	(13,580,000)
Net deferred tax assets	$ —	$ —

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

	March 31, 2011	December 31, 2010
Current	$ —	$ —
Deferred	—	—
Total	$ —	$ —

9. Stock Options and Warrants

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

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

In November and December of 2009, the Company issued outside the 2006 option plans non-qualified stock options to purchase 10,257,593 shares of common stock to certain employees and consultants. These options vest over 50 months and expire not later than 10 years from the date of grant.

In accordance applicable authoritative guidance, the Company established 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. For the three months ended March 31, 2011 and 2010, the Company recognized $888,869 and $285,584 as stock-based compensation expense, respectively. Unrecognized compensation cost related to stock options as of March 31, 2011 was approximately $10,775,000, which is expected to be recognized on a straight-line basis over a weighted average period of approximately 3.4 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 three months ended March 31, 2011 and 2010:

	March 31, 2011	March 31, 2010
Significant assumptions (weighted-average):		
Risk-free interest rate at grant date	2.31%	1.8%
Expected stock price volatility	65%	105.5%
Expected dividend payout	0%	0%
Expected option life-years based on management's estimate	6.04 yrs	4.0 yrs

Transactions involving stock options issued to employees, directors and consultants under the Plan are summarized below. Options issued under the plan have a maximum life of 10 years. The following table summarizes the changes in options outstanding and the related exercise prices for the shares of the Company's common stock issued under the Plan and as of March 31, 2011:

	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	2,616,500	7.35	$ 0.44	1,552,800	7.26	$ 0.44
$0.51-$0.75	11,594,000	8.62	$ 0.61	3,205,500	8.62	$ 0.61
$0.76-$1.00	2,715,539	4.82	$ 1.00	2,675,039	4.79	$ 1.00
$1.01-$1.25	24,600	6.57	$ 1.15	19,200	6.57	$ 1.15
$1.26-$1.50	2,455,900	8.97	$ 1.31	590,220	7.98	$ 1.36
$1.51-$3.20	6,150,000	9.59	$ 1.94	570,599	8.26	$ 2.27
	25,556,539	8.35	$ 1.02	8,613,358	7.11	$ 0.87

	Number of Shares issued under 2006 Plan and 2010 Plan	Weighted Average Price Per Share
Outstanding at December 31, 2010	10,009,937	$ 0.92
Granted	5,430,000	$ 1.93
Exercised	(117,630)	$ 0.53
Canceled or expired	—	$ —
Outstanding at March 31, 2011	15,322,307	$ 1.28

	Number of Shares issued outside the Plan	Weighted Average Price Per Share
Outstanding at December 31, 2010	10,708,939	$ 0.64
Granted	—	$ —
Exercised	(454,170)	$ 0.59
Canceled or expired	(20,537)	$ 0.62
Outstanding at March 31, 2011	10,234,232	$ 0.64

Warrants

Brookstreet Securities Corporation

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

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.

During 2008, the Company raised additional capital by issuing Preferred Series A, B, C and D stock. This issuance of the Preferred Series C triggered an anti-dilutive clause in the Brookstreet warrant agreement, where Brookstreet would receive an adjustment downward in the price they pay for converting its warrants and resulted in a deemed dividend of $336,522. Brookstreet earned a total of 2,250,190 warrants in 2006 and 2007 in connection with the Company's private placement. Each Warrant entitles the holder thereof to purchase one share of common stock for $1.00, revalued to $0.56 per warrant. The Company recognized the value attributable to the warrants in the amount of $1,230,649 in 2006 and $169,249 in 2007 as a component of additional paid-in capital with a corresponding reduction in additional paid-in capital to reflect the issuance as a non-cash cost of the offering. The Company valued the Brookstreet warrants using the Black-Scholes pricing model and the following assumptions: contractual terms of 5 years, an average risk free interest rate of 4.58%, a dividend yield of 0% and 0%, and volatility of 70.57%. During 2009, the Company issued a total of 3,510,206 shares of common stock which related to warrants originally issued to Brookstreet. Brookstreet converted a total of 612,267 warrants into 484,675 shares of common stock at an average cashless conversion price of $0.56 per share.

Implementation of Accounting Standards Code (ASC) 815-40-15, (formerly known as EITF 07-5 "Determining Whether an Instrument (or Embedded Feature) is Indexed to an Entity's Own Stock Price")

The Accounting Standards Code (ASC) 815-40-15, with an effective date of December 15, 2008, should have been implemented as of January 1, 2009, and in future periods. This Issue applies to any freestanding financial instrument or embedded feature that has all the characteristics of a derivative as described in ASC 815-10-15-83, (previously paragraphs 6–9 of Statement 133) for purposes of determining whether that instrument or embedded feature qualifies for the first part of the scope exception in ASC 815-10-74 (previously paragraph 11(a) of Statement 133). This Issue also applies to any freestanding financial instrument that is potentially settled in an entity's own stock, regardless of whether the instrument has all the characteristics of a derivative for purposes of determining whether the instrument is within the scope of ASC 875-40.

During 2008, the Company issued a Series C Preferred round of financing which triggered the anti-dilution clause in the BrookStreet warrant agreement ("Brookstreet Warrants"). From issuing the Series C Preferred Stock, the exercise prices of the BrookStreet Warrants were revalued down to $0.56 per warrant. Based on the anti-dilution

clause being triggered and the exercise price of the BrookStreet Warrants being revalued downward to $0.56, ASC 815-40-15 should have caused the BrookStreet Warrants to be treated and accounted for as a liability.

The anti-dilution provisions of the Brookstreet Warrants failed the new criteria set by this ASC 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 statement of operations. 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, interest rate on U.S. treasury 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 in warrant liabilities of $3,179,639 and $1,505,840, and expense of $3,474,784 and income of $870,849 for the quarters ended March 31, 2010 and 2011, respectively.

As of March 31, 2011, Brookstreet had 1,733,772 of warrants outstanding at an exercise price of $0.56.

Warrants issued with other financings

During 2007 and 2008, the Company entered into various agreements to borrow working capital and as part of these agreements, the Company issued warrants for the holders to purchase common stock. The Company issued 1,317,921 of warrants to a number of investors at an exercise price of $0.80 per share and 1,400,000 to YKA Partners, an affiliated company of our Chairman of the Board with an exercise price of $0.25 per share.

Warrants issued with Preferred Stock

Also during 2008, in connection with the fund raising efforts of the Company, we issued two warrants to purchase shares of common stock with the purchase of one Series A Preferred Stock, were an additional 2,000,000 common stock warrants were outstanding and two warrants to purchase shares of common stock with the purchase of one Series B Preferred Stock, were an additional 1,100,000 common stock warrants were outstanding. As of December 31, 2010, only 400,000 warrants related to the series A was converted into 800,000 common shares.

As of March 31, 2011, there were 1,600,000 warrants related to the Series A Preferred Stock and 500,000 warrants related to the Series B Preferred Stock, each at an exercise price of $0.25 per share.

Warrants issued to BioTime

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 produce, make, and distribute Joint Products. As part of the agreement, the Company issued warrants for Bio Time to purchase 30,000 shares of the Company’s common stock at $0.25 per share. These warrants expire 4 years from date of grant.

10. Commitments and Contingencies

Leases

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

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

Future minimum lease payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of March 31, 2011, are as follows:

	Amount
2011	182,348
2012	341,974
2013	353,248
2014	353,156
2015 and thereafter	452,421
Total	$1,683,147

Marketing Arrangement

The Company signed a Term Sheet (“arrangement”) in late 2010 with a third party marketing organization who would serve as a consultant and assist in marketing and help Lifeline Skin Care, LLC (“SkinCare”), a wholly-owned subsidiary of International Stem Cell, to sell its skin care products through various proprietary mailings. In the arrangement, there are a various phases and objectives to accomplish, one which may lead to the formation of a Joint Venture in the future between the parties. In the arrangement, SkinCare will pay 40% on net profits as defined in the arrangement generated from the proprietary mailings. Under this arrangement, SkinCare recognized $304,983 in marketing expenses. For the first quarter ended March 31, 2011, $154,983 was expensed and is accrued as marketing quarter expenses.

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

The following discussion of our financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements and related notes and other financial information included elsewhere herein. This information should also be read in conjunction with our audited historical consolidated financial statements which are included in our Form 10-K/A for the fiscal year ended December 31, 2010. The discussion contains forward-looking statements based upon current expectations that involve risks and uncertainties, such as our plans, expectations and intentions. Our actual results may differ significantly from management's expectations. This discussion should not be construed to imply that the results discussed herein will necessarily continue into the future, or that any conclusion reached herein will necessarily be indicative of actual operating results in the future. Such discussion only represents our management's best present assessment.

Overview

Business

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, we focus on applications where cell and tissue therapy is already proven but where there currently is insufficient supply of safe and efficacious cells, such as 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. We have 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. Our strategy for these "cellular ophthalmology" programs is to establish third-party funding and conduct accelerated development in those territories.

Basis of Presentation and Corporate Restructure

Our California wholly-owned subsidiary Lifeline Skin Care, LLC., (LSC) develops and commercializes skin care products using our 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 to help us support internal development of therapeutic products.

Our wholly-owned subsidiary Lifeline Cell Technology, LLC (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 and, pain reduction. 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 to help ussupport internal development of therapeutic products.

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 was 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, LLC is responsible for developing, manufacturing and distributing all of its products.

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 is developing, manufacturing and distributing cosmeceutical products.

Results of Operations

Revenues

We are a development stage company and as such have generated nominal revenues. For the three months ended March 31, 2011, our product sales have continued to increase from the previous year. We recognized $1,514,916 of product revenue for the three months ended March 31, 2011, compared to $272,626 for the three months ended March 31, 2010, an increase of $1,242,290 or 456%. The increase in product sales is due primarily to our SkinCare products which generated $1,133,895 in product revenue, which we did not have any revenue from these products in 2010 and $381,342 of Lifeline Cell Technology product revenue. Product revenue from SkinCare was derived from limited marketing initiatives. Lifeline Cell Technology revenue increased from the first quarter of the prior year due to our new strategic marketing efforts on advertising and the continued efforts by our sales and marketing team to promote and develop new products and sales leads, as well as new concepts implemented from our marketing consultants to promote our products.

Cost of sales

Cost of sales for the quarter ended March 31, 2011, were $428,994 or 28% of sales, compared to $146,376 or 54% of sales for the quarter ended March 31, 2010. Cost of sales includes, salaries related to manufacturing, third party manufacturing costs, direct materials, general laboratory supplies and an allocation of overhead. The reason for the decrease in cost of sales as a percentage of product sales for the three months ended March 31, 2011, compared to the first quarter of 2010, is primarily due to the addition of our SkinCare products which have a lower cost of goods than our other media and cells type products. On our media and cell type products we have continued to reduce cost of goods as a result of reducing direct labor costs and direct material costs caused by manufacturing inefficiencies. As we continue to refine our manufacturing processes on our media and cell type products and our sales volume continues to increase for these products, we anticipate our cost of sales as a percentage of product sales will continue to decrease.

Research and Development

Research and development expenses were $1,003,410, for the three months ended March 31, 2011, an increase of $419,341, or 72%, compared to $584,069 for the three months ended March 31, 2010. Research and development (R&D) 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 during the first quarter of 2011, we hired additional research staff, we also engaged third party contractors to help with various animal testing and various consultants, which represents the primary reasons for the increased in research and development expenses. Additionally, as our R&D activities increased along with the additional staff, our R&D general lab expenses also 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.

No specific completion dates have been established for any particular project since most of our work is experimental. We do not expect any revenues from any R&D efforts directed toward cell based therapy for several years and may never develop if our research is not successful. We expect some revenues 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 costs 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 were $318,206 for the three months ended March 31, 2011, an increase of $184,788, or 138%, compared to $133,418, for the three months ended March 31, 2010. We continue to focus our marketing efforts and spend our marketing dollars on marketing consultants, trade shows and the cost of advertising. We have continued to develop our marketing and sales strategies as well as our marketing infrastructure to support our sales team and our sales goals. Another reason for the increase in marketing expenses related marketing expenses incurred from an arrangement with a third party marketing organization who served as a consultant and assisted in marketing efforts as well as and help SkinCare sell its skin care products through various proprietary mailings. Based on the arrangement, we incurred a 40% marketing fee on net profits generated from these proprietary mailings. During the first quarter 2011, we incurred an obligation of $304,983 in marketing expenses related to this arrangement, however, $150,000 was incorrectly expensed in 2010, therefore we recognized $154,983 in the first quarter ended March 31, 2011.

General and Administrative Expenses

General and administrative expenses were $2,232,738 for the three months ended March 31, 2011, an increase of $656,300 or 42%, compared to $1,576,438 for the three months ended March 31, 2010. The primary reason for the increase in general and administrative expenses were an increase in non-cash stock-based compensation expense, an increase in headcount related costs, an increase in business development related activities and general corporate expenses.

Liquidity and Capital Resources

At March 31, 2011, our cash and cash equivalents totaled $5,302,685. Overall, we had a decrease in cash of $479,342 for the three months ended March 31, 2011 resulting from $969,988 cash used in operating activities and $313,506 cash used in investing activities, offset by $804,152 of cash provided by our financing activities. The funds generated from financing activities during the quarter ended March 31, 2011 were used mainly to support our operating losses.

Operating Cash Flows

Net cash used in operating activities of $969,988 for the three months ended March 31, 2011was primarily attributable to a net loss of $1,594,483. The adjustments to reconcile the net loss to net cash used in operating activities primarily include depreciation and amortization expense of $115,936, non-cash stock-based compensation expense of $888,869, stock issued for services of $303,000, a decrease in change in market value of warrants of $870,849, a decrease in accounts receivable of $462,907, an increase in inventory of $256,109, a decrease in prepaid assets of $22,315, an increase in deposits and other assets of $11,758, an increase in accounts payable of $522,164, a decrease in accrued expenses of $23,992, and a decrease in deferred revenue of $506,874. The major portion of this increase in cash used resulted from increased spending in general and administrative expenses.

Investing Cash Flows

Net cash used in investing activities of $313,506 for the three months ended March 31, 2011 was primarily attributable to purchases of property and equipment of $283,756 consisting primarily of laboratory equipment for use in a variety of research projects and corporate furniture and building leasehold improvements related to new corporate offices. In addition we made payments for patent licenses of $29,750 for the three months ended March 31, 2011.

Financing Cash Flows

Net cash provided by financing activities of $804,152 for the three months ended March 31, 2011was primarily attributable to issuing 450,000 shares of common stock to Aspire Capital Group for $576,480. In addition we raised $334,877 from warrants and options exercised. Dividends paid for the first quarter was $107,206.

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, plus payments that are specifically related to sales and are therefore unpredictable as to timing and amount. Royalties on sales range of 3% to 12%, and milestone payments do not begin until our first therapeutic product is launched. No licenses are terminable at will by the licensor. For further discussion of our patents, see Note 4 to our condensed consolidated financial statements.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

As required by Rules 13a-15 and 15d-15 of the Securities Exchange Act of 1934, the Company has evaluated, with the participation of management, including the Chief Executive Officer and the Chief Financial Officer, the effectiveness of its disclosure controls and procedures (as defined in such rules) as of the end of the period covered by this report. Based on our assessment at the end of 2010, our management concluded that we had a material weakness in our internal controls over financial reporting. The Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are still not effective as of March 31, 2011 to ensure that information required to be disclosed by the Company in reports prepared in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC") is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms.

As noted above, we identified a material weakness in our internal controls over financial reporting and have taken measures to mitigate the material weakness. One of the measures we have taken has been to recruit another senior staff member with SEC and public company accounting experience who will start in the early third quarter 2011. We will also provide training and education to our existing Accounting Staff.

During our second quarter review for 2011, we identified a material weakness in our internal controls related to our review process and the accounting impact of certain contracts. To mitigate this material weakness, we will implement a review process for all contracts to make sure contracts are reviewed by appropriate levels of management and that there is an analysis of the accounting impact during the relevant reporting period.

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

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

Changes in Internal Control Over Financial Reporting

There have been no changes in the Company's internal control over financial reporting that occurred during the first quarter of the current fiscal year that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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Item 6. Exhibits

3.1	Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit 3.4 of the Registrant's Form 10-SB filed on April 4, 2006).
3.2	Certificate of Amendment of Certificate of Incorporation (incorporated by reference to Exhibit 3.1 of the Registrant's Preliminary Information Statement on Form 14C filed on December 29, 2006).
3.3	Amended and Restated Bylaws of the Registrant (incorporated by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-k filed on May 6, 2011).
4.1	Form of Specimen Common Stock Certificate (incorporated by reference to Exhibit 4.1 of the Registrant's Annual Report on Form 10-K filed on March 30, 2009).
4.2	Certificate of Designation of Series A Preferred Stock (incorporated by reference to Exhibit 4.1 of the Issuers Form 8-K filed on January 17, 2008).
4.3	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	Standard Multi-Tenant Office Lease – Gross Agreement, dated as of February 19, 2011, by and between the Company and S Real Estate Holdings, LLC. (incorporated by reference to Exhibit 10. of the Issuer's Current Report on Form 8-K filed on February 28, 2011).
31.1	Rule 13a-14(a)/15d-14a(a) Certification of Chief Executive Officer.
31.2	Rule 13a-14(a)/15d-14a(a) Certification of Chief Financial Officer.
32.1	Section 1350 Certification of Chief Executive Officer.
32.2	Section 1350 Certification of Chief Financial Officer.

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SIGNATURES

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

INTERNATIONAL STEM CELL CORPORATION

Dated: August 15, 2011

By: /S/ ANDREY SEMECHKIN
Name: **Andrey Semechkin**
Title: **Chief Executive Officer**

By: /S/ RAY WOOD
Name: **Ray Wood**
Title: **Chief Financial Officer (Principal Financial and Accounting Officer)**

Exhibit 31.1

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

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

1. I have reviewed this quarterly report on Form 10-Q/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 periods presented in this report;

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

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

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

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

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

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

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

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

Date: August 15, 2011

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

Exhibit 31.2

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

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

1. I have reviewed this quarterly report on Form 10-Q/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 periods presented in this report;

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

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

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

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

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

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

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

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

Date: August 15, 2011

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

Exhibit 32.1

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

In connection with the Quarterly Report on Form 10-Q/A (the "Report") of International Stem Cell Corporation (the "Company") for the three months ended March 31, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Andrey Semechkin, Chief Executive Officer of the Company, hereby certify pursuant to 18 U.S.C. Section 1350, that as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002:

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

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

Date: August 15, 2011

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

Exhibit 32.2

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

In connection with the Quarterly Report on Form 10-Q/A (the "Report") of International Stem Cell Corporation (the "Company") for the three months ended March 31, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Ray Wood, Chief Financial Officer of the Company, hereby certify pursuant to 18 U.S.C. Section 1350, that as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002:

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

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

Date: August 15, 2011

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