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INTERNATIONAL STEM CELL CORPORATION

(OTCC BB: ISCO.OB)

\$0.18

BUY

During the past few months International Stem Cell Corp has made significant progress towards discovering, developing, and commercializing next generation therapies in regenerative medicine, particularly the fields of macular degeneration and corneal disease, liver disease and diabetes. The Company has set up collaborations with leading clinical researchers that promise to accelerate ISCO's advances. We continue to remain optimistic about the Company's business model and long-term growth prospects. However, in the recently reported 10Q for the quarter ended March 31, 2008, International Stem Cell reported cash balance of \$0. This raises concerns regarding ISCO's ability to sustain operations in the near term without raising additional finance to meet its working capital requirements. Nevertheless, post our recent discussions with management, we are confident that they will be able to raise working capital. We are reiterating our BUY rating with a price target between \$1.94-\$2.16 based on our Base Case estimates.

Price Target

Price Targets	3%	4%	5%	6%	7%
Optimistic Case	3.21	3.28	3.36	3.46	3.56
Base Case	1.94	1.99	2.04	2.10	2.16
Pessimistic Case	1.12	1.15	1.18	1.22	1.26

Sales Forecast

Sales in \$ 000s	2008	2009	2010	2011	2012	2013	2014	2015
Optimistic Case	2,200	5,840	19,652	28,384	106,787	143,383	169,236	236,693
Base Case	2,200	5,006	14,943	21,394	98,198	124,820	139,893	178,741
Pessimistic Case	2,200	3,337	11,787	16,834	92,737	114,357	120,322	133,712

EPS Forecast

EPS in \$s	2008	2009	2010	2011	2012	2013	2014	2015
Optimistic Case	-0.05	-0.02	0.44	0.67	4.61	6.20	7.28	11.58
Base Case	-0.05	-0.03	0.30	0.46	4.22	5.36	5.97	8.66
Pessimistic Case	-0.05	-0.06	0.22	0.34	3.99	4.92	5.13	6.46



Price and Volume



	Last Month	Last 3 Months	Last 6 Months	Last 9 Months	Last 12 Months
High Price	0.35	0.54	0.97	1.10	1.60
Low Price	0.27	0.27	0.27	0.27	0.27
Close Price	0.34	0.52	0.95	1.05	1.35
Total Volume	296,700	1,369,300	1,865,800	2,440,200	3,369,300
Average Daily Volume	15,600	22,400	15,200	13,200	13,500
Price Change vs Market (%)	88	63	34	35	25

**Price and Volume (Continued)**

	Last 4 Weeks	Last 13 Weeks	Last 26 Weeks	Last 52 Weeks
High Price	0.34	0.54	0.97	1.60
Low Price	0.27	0.27	0.27	0.27
Close Price	0.34	0.50	0.95	1.30
Total Volume	281,000	1,363,300	1,865,300	3,358,300
Average Daily Volume	17,600	23,100	15,300	13,600
Price Change (%)	-14.7	-42.0	-69.5	-77.7
Price Change vs Market (%)	87	66	35	26

Current Market Value	6,366,509
Market Value As % Of Revenues	16,424
Reported Shares Out. (2008/03/11) (#)	35,369,495
Balance Sheet Shares Out. (2007/12) (#)	35,369,495
Float (#)	23,134,818
Float As % Of Shares Outstanding	65.4

Weekly Volume As % Of Shares Out.	1.44
Liquidity Ratio (\$000s)	4.40
On-Balance Volume Index Last 4 Weeks (%)	15

5 Day Moving Average	0.28
10 Day Moving Average	0.28
10 Week Moving Average	0.33
30 Week Moving Average	0.54
200 Day Moving Average	0.66

200 Day Price Index vs Market (%)	27
Price Momentum This Week (%)	42
Price Momentum Prior Week (%)	40
Beta (60 Month)	2.01
Beta (36 Month) Average	2.01



Insiders and Institutional Holdings

Insiders are currently holding 34.6% of shares outstanding

Date	Shares Bought	Shares Sold	Transactions
2008/05	20,000	0	20,000
2008/04	17,500	0	17,500
2008/03	4,545	0	4,545
2008/02	0	0	0
2008/01	0	0	0
2007/12	0	0	0
2007/11	2,000	0	2,000
2007/10	4,600	0	4,600
2007/09	10,700	0	10,700
2007/08	14,800	0	14,800



OVERVIEW OF COMPANY OPERATIONS

International Stem Cell Corporation (ISCO or International Stem Cell) is an early-stage stem cell therapeutics company based in Oceanside, California. Human Parthenogenetic Stem Cells (hpSC) hold equal potential to treat a variety of degenerative diseases in the same manner as do Human Embryonic Stem Cells (hES). However hpSC have unique and powerful advantages over hES in the area of immune rejection, ethics and cell banking. The Company is positioned to become a world leader in the production of hpSC cells for the study and treatment of disease. International Stem Cell's long-term goal is to bring to market unlimited numbers of hpSC cells in usable forms for therapeutic treatments such as transplantation for a number of diseases, including blindness resulting from retinitis pigmentosa or macular degeneration, diabetes, and liver disease, diseases where the utility of cell transplantation has been proven clinically yet the problem of insufficient cells to treat the existing patient population remains. To meet this goal, the Company has developed:

- the only successful process of producing a unique type of hpSC from unfertilized human eggs using a process called parthenogenesis. These cells can provide an essentially unlimited supply of cells for human transplantation without immune rejection and avoid the current ethical issues that plague standard hES cells;
- the techniques to change or differentiate these cells into retinal cells required for treating blinding diseases such as macular degeneration;
- collaborations with leading clinical researchers that will lead to new clinical applications while retaining manufacturing rights for ISCO.

The Company is developing: protocols and facilities to produce cells from hpSC cells to treat diabetes and liver disease in compliance with government regulatory requirements, including the elimination of contaminating animal byproducts.

Over the long term, International Stem Cell plans to develop a bank of hpSC cell lines and patented techniques required to differentiate these hpSC cells into all of the types of cells needed to treat patients. The inherent qualities of hpSC will allow the reduction or elimination of the incidence of immune rejection following transplantation using existing immunosuppressive therapy. These techniques will



also allow the Company to generate hpSC cells suitable for therapeutic use in a manner that is ethical and efficient.

International Stem Cell is distinctive in the field of stem cell research, as the Company combines a research and development program for future products with an active revenue generating business. The Company currently manufactures and sells directly or through a growing distribution network its specialized cells, serum-free growth media and related cell culture agents under the brand name “Lifeline” that are required for the growth and differentiation of stem cells and other cell types for research purposes. The Company has also established OEM contracts to manufacture stem cells for therapeutic companies such as Cytori Therapeutics and has set up co-manufacturing and distribution agreements with leading stem cell companies including BioTime, Inc. These products are marketed to academic researchers, government institutions and corporations interested in basic and applied research utilizing stem cells. While FDA approval will be required for the use of any hpSC cells developed for human therapy, it is not required for the specialty products currently marketed and manufactured by the Company.

International Stem Cell’s business is supplemented by one of the most flexible and powerful patent portfolios in the stem cell field. The Company owns or has licensed over 100 essential patents or patents pending, including three of the four known methods for creating embryonic stem cells. International Stem Cell controls the patented technique that is the most promising in the field to address the issue of immune rejection and dependency on immunosuppressant medications in transplantation.

Through its diverse offerings, International Stem Cell is addressing the needs of a rapidly growing market. The success and competitive strength of the Company does not depend solely on their ability to predict which of the stem cell-based therapies being studied worldwide will be successful. Any type of transplant therapy developed by any company will require the specialized products manufactured by International Stem Cell in order to grow the stem cells in sufficient quantity and quality for human therapeutic use. The target market for the specialty research products is valued at \$300 million USD and is growing at 15% per year. The market for the Company’s focus areas of cell development (i.e. retinal degeneration, diabetes, and liver disease) is estimated to be more than \$30 billion USD for each disease, totaling close to \$100 billion USD. Even a small penetration of this market could represent hundreds of millions of dollars in revenue for International Stem Cell Corporation.



KEY BUSINESS DEVELOPMENTS

Announcements regarding the use of ISCO's Human Parthenogenetic Stem Cells to be used in the Development of Treatments for Diabetes, Liver Disease and Neural diseases validates their potential value

During July, 2008 International Stem Cell Corporation announced a collaboration with Novocell Inc. (La Jolla, CA) to use ISCO's human parthenogenetic stem cell lines for differentiation to Human pancreatic islet cells. Novocell is a leader in the field of creating insulin producing cells from stem cells. ISCO's unique stem cells offer a solution for two of the most difficult problems facing Novocell's stem cell therapy. They are the first step in preventing the rejection of implanted cells by the patient's own immune system and they provide an alternative to embryonic stem cells that does not involve destroying human embryos.

During May, 2008 International Stem Cell Corporation announced that its human parthenogenetic stem cell lines were to be used by Holger Willenbring, MD, assistant professor of surgery at the University of California at San Francisco, in studies aimed at creating liver cells to treat human liver disease.. The fact that Dr. Willenbring and the University of California at San Francisco are testing the ability of ISCO's human parthenogenetic stem cells to form liver cells is a strong validation of their potential value in creating therapeutic cells that have significant immune rejection advantages and significant ethical advantages.

In March of 2008 International Stem Cell Corporation announced that its human parthenogenetic stem cell lines were to be used in Germany in studies aimed at creating specific cell types to treat human neural diseases such as Parkinson's disease. The fact that Dr. Mueller and the University of Wuerzburg have approved ISCO's human parthenogenetic stem cells for research is a strong validation of their value in creating therapeutic cells that have significant immune rejection advantages and significant ethical advantages in the clinical field of nerve diseases.

ISCO signed agreements with University of Cambridge (UK) and Michigan State University to conduct basic molecular and genetic assessments of imprinted gene expression and DNA methylation on its unique Parthenogenetic Stem Cells to generate data that will be useful data for FDA clinical trials.



The fact that such distinguished universities and researchers are using ISCO's Human Parthenogenetic Stem Cells in their studies is a strong validation of the potential value that these cells have in creating therapeutic cells that have significant immune rejection advantages and significant ethical advantages.

All collaborations are linked to Material Transfer Agreements that give ISCO manufacturing and other rights to discoveries, therefore giving ISCO rights in a broad range of therapeutic applications without the large capital expenditures involved in basic research. ISCO is building a portfolio of technical and manufacturing rights to create the first true "Stem Cell Bank". It shall also help ISCO to market and distribute its specialized cells and therapeutic research worldwide.

Successful Partnerships, Agreements and Collaborations strengthen ISCO's value chain and are likely to reap rich dividends in the future

As a part of its strategy to create and enter into strategic agreements and partnership with leading industry players across its value chain, ISCO announced a number of agreements and partnerships during the past few months. In June of 2008 ISCO and its wholly-owned subsidiary Lifeline Cell Technology (Lifeline) signed a manufacturing and distribution agreement with BioTime, Inc., (OTCBB:BTIM) (Emeryville, CA) and BioTime's wholly-owned subsidiary Embryome Sciences, Inc., to jointly produce and distribute hundreds of new standardized human and animal stem cell lines, along with corresponding data and reagents. The mutual goal is to provide the "picks and shovels" for scientists mining the stem cell field for cures to human disease through regenerative medicine and pharmaceutical drug discovery. The mutual aim of signing this agreement was to provide unique research tools for scientists researching on cures for human disease through regenerative medicine and pharmaceutical drug discovery.

In March 2008, ISCO announced its agreement with American Type Culture Collection, the largest cell repository in the world to manufacture living primary cells and cell culture products for worldwide distribution by ATCC into the biological research market.



Exclusive agreement to Distribute Approved Human Skin Model for Toxicity Testing likely to result in immediate cash inflows

Recently, the Company announced its exclusive agreement with CellSystems Biotechnologie to distribute laboratory-cultured models of human skin in US and Canada. These skin models shall be useful in testing the hazardous properties of consumer products and for dermatological and pharmaceutical research.

ISCO plans to leverage its manufacturing and distribution resources to be worldwide primary source of quality human cells for the therapeutic and research markets. This in our view is a strong positive and is likely to result in immediate cash flows. It also helps embed ISCO's products into successful therapeutic and quality control procedures worldwide, providing a revenue stream of shared royalties beyond traditional sales.



FINANCIAL PERFORMANCE OVERVIEW – THREE MONTHS ENDED MARCH 31, 2008

International Stem Cell Corp, increased product sales, and recorded revenues of \$32,332 during the three months ended March 31, 2008 compared to \$1,826 reported during the same period previous year. The growth in product sales was due to additional investment made in marketing and advertising by its sales and marketing team.

In the first three months ended March 31, 2008 ISCO's General and Administrative expenses were \$885,659, 15% less compared to \$1,039,723 for the three months ended March 31, 2007. During the same period, Research and Development expenses were \$588,041 compared to \$623,499 for the three months ended March 31, 2007. This decrease is primarily due to a reduction in research costs related to contract services and more efficiency in its research processes. Marketing and Selling Expenses for the first three months ended March 31, 2008 were \$149,347, 133% more than what it reported during the first quarter previous year.

Higher operating costs and absence of significant other income as reported during the previous quarters resulted in a net loss of \$1,615,162 compared to a net loss of \$1,693,139 for the prior year period. This translates to an earnings per share of \$(0.06) for the three months ended march 31, 2008.



CONCLUSION

We reiterate our BUY rating for International Stem Cell Corporation with a target price in the range of \$1.94-2.16, as per our Base Case forecast. As discussed earlier, though we continue to remain concerned about the current cash balances, we are confident that management will raise additional working capital funding, thus ensuring that there is no derailment in its growth prospects.

On the business front, the Company is well positioned to benefit from its proprietary technology portfolio that will facilitate the production of an essentially unlimited supply of cells for human transplantation. The fact that industry leaders are testing the ability of ISCO's human parthenogenetic stem cells to form liver cells is a strong validation of their potential value in creating therapeutic cells that have significant immune rejection advantages and significant ethical advantages. ISCO's exclusive agreement with CellSystems Biotechnologie to distribute laboratory-cultured models of human skin is a significant development towards its focus on therapeutic and research products. The market size for the Company's focus areas of cell development (i.e. retinal degeneration, diabetes, and liver disease) is estimated to be more than \$30 billion USD for each disease, totaling close to \$100 billion USD is an additional positive. With management's expertise and knowledge in stem cell therapies and strong intellectual property capabilities, International Stem Cell offers an attractive investment avenue for investors to participate in the growth of the Stem cell Therapeutics industry.

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LATEST HEADLINES

- Diabetes Business Wire(Thu, Jul 17)
- Cells Business Wire(Tue, Jul 8)
- BioTime inks deal to create hundreds of stem cell lines bizjournals.com(Wed, Jun 25)
- Events EDGAR Online(Wed, Jun 25)
- International Stem Cell Corporation Signs Agreement with BioTime, Inc., and Embryome Sciences, Inc., to Provide Unique Human Stem Cell Lines for Research UseBusiness Wire(Wed, Jun 25)
- Exhibits EDGAR Online(Mon, Jun 9)
- Financials EDGAR Online Financials(Tue, Jun 3)
- Report EDGAR Online(Thu, May 15)
- Disease Business Wire(Wed, May 14)

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APPENDIX

Income Statement

All figures in US\$	Three Months Ended	
	31-Mar-08	31-Mar-07
Revenues		
Sales, net	32,332	1,826
Development expenses		
Cost of sales	20,859	4,525
Research and development	588,041	623,499
Marketing	149,347	63,988
General and administrative	885,659	1,039,723
Total development expenses	1,643,906	1,731,735
Loss from development activities	(1,611,574)	(1,729,909)
Other income (expense)		
Settlement with related company	-	-
Miscellaneous income	356	548
Dividend income	-	45,858
Interest expense	(6,044)	(13,678)
Sublease income	2,100	4,042
Total other income (expense)	(3,588)	36,770
Loss before income taxes	(1,615,162)	(1,693,139)
Provision for income taxes	-	-
Net loss	-1,615,162	-1,693,139
Deemed dividend on preferred stock	439,876	-
Net loss attributable to common shareholders	-2,055,038	-1,693,139
Net loss per share computation:		
Weighted average shares outstanding	35,369,495	35,139,467
Net loss per share – Basic and Diluted	-0.06	-0.05

**Balance Sheet**

All figures in US\$	31-Mar-08 (Unaudited)	31-Dec-07
Assets		
Cash and cash equivalents	-	165,344
Inventory	194,841	175,636
Other current assets	8,052	10,189
Prepaid assets	35,916	119,035
Property and equipment, net	468,536	482,786
Patent licenses, net	613,053	625,148
Deposits and other assets	20,144	19,643
Total assets	1,340,542	1,597,781
Liabilities and stockholders' equity		
Accounts payable	838,880	493,426
Accrued liabilities	162,945	142,177
Loan payable to related party	100,000	500,000
Preferred Stock Subscription Series B received in advance	300,000	-
Related party payables	245,823	249,778
Total liabilities	1,647,648	1,385,381
Common stock	35,369	35,369
Series A Preferred stock	1,000	
Additional paid-in capital	17,658,578	16,124,046
Accumulated deficit	-18,002,053	-15,947,015
Total stockholders' equity (Deficit)	-307,106	212,400
Total liabilities and stockholders' equity	1,340,542	1,597,781



Cash Flow Statement

All figures in US\$	Three Months Ended	
	31-Mar-08	31-Mar-07
Operating activities		
Net loss	-1,615,162	-1,311,015
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	39,289	26,524
Accretion of discount on Notes Payable	-	-
Accretion of discount on bridge loans	-	-
Non-cash warrants for services	-	-
Non-cash compensation expense	95,656	112,879
Common stock issued for services	-	-
Changes in operating assets and liabilities		
(Increase) in other current assets	2,137	-514
(Increase) decrease in accounts receivable	-	-
(Increase) decrease in inventory	-19,205	-
(Increase) decrease in prepaid assets	83,119	-
(Increase) decrease in deposits and other assets	-501	-
Increase (decrease) in accounts payable	345,453	-46,335
Increase (decrease) in accrued liabilities	20,768	17,041
Increase (decrease) in loan payable	100,000	-25,000
Increase (decrease) in related party payables	-503,956	-94,396
Net cash used in operating activities	-1,452,402	-1,320,816
Investing activities		
Purchases of property and equipment	-12,542	-148,831
Payments for patent licenses and trademarks	-400	-36,768
Net cash used in investing activities	-12,942	-185,599
Financing activities		
Members' contributions	-	-
Proceeds from issuance of common stock, Preferred Stock, and warrant exercises	1,000,000	1,370,000
Proceeds from Preferred Stock Subscribed	300,000	-
Proceeds for issuance of convertible promissory notes	-	-
Payment of promissory notes	-	-
Payment of offering costs	-	-212,875
Net cash provided by financing activities	1,300,000	1,157,125
Net (decrease) increase in cash	(165,344)	(349,290)
Cash and cash equivalents, beginning of period	165,344	4,696,694
Cash and cash equivalents, end of period	-	4,347,404



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Recommendations: BUY 98%, SELL 2%

