ADVANCED CELL TECHNOLOGY, INC.
Form 10-Q
August 04, 2011

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

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2011

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM TO .

COMMISSION FILE NUMBER: 0-50295

ADVANCED CELL TECHNOLOGY, INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE	87-0656515
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NO.)

33 LOCKE DRIVE, MARLBOROUGH, MASSACHUSETTS 01752
(ADDRESS, INCLUDING ZIP CODE, OF PRINCIPAL EXECUTIVE OFFICES)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (508) 756-1212

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

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

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 definitions of “large accelerated filer,” “accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

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

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

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

Class:	Outstanding at July 29, 2011:
Common Stock, $0.001 par value per share	1,590,808,502 shares

ADVANCED CELL TECHNOLOGY, INC. AND SUBSIDIARY

INDEX

Part I – FINANCIAL INFORMATION
Item 1. Financial Statements

ADVANCED CELL TECHNOLOGY, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
AS OF JUNE 30, 2011 AND DECEMBER 31, 2010

	June 30, 2011 (unaudited)	December 31, 2010
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$16,114,324	$15,889,409
Deferred royalty fees, current portion	77,017	91,598
Prepaid expenses	344,497	-
Total current assets	16,535,838	15,981,007
Property and equipment, net	183,538	185,102
Deferred royalty fees, less current portion	263,870	295,089
Deposits	14,766	14,766
Deferred issuance costs	1,782,648	2,578,188
TOTAL ASSETS	$18,780,660	$19,054,152
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES:		
Accounts payable	$1,925,861	$1,982,743
Accrued expenses	1,610,230	4,971,304
Accrued settlement	-	3,205,856
Deferred revenue, current portion	310,412	506,418
2009 Convertible promissory notes, current portion, net of discounts of $0 and $19,229, respectively	-	132,680
Embedded conversion option liabilities, current portion	-	537,249
Deferred joint venture obligations, current portion	1,853	6,870
Total current liabilities	3,848,356	11,343,120
Convertible promissory notes, less current portion, net of discounts of $222,095 and $285,005, respectively	65,690	2,780
Embedded conversion option liabilities, less current portion	598,229	482,686
Warrant and option derivative liabilities	16,931,286	27,307,218
Deferred revenue, less current portion	2,187,627	2,298,997
Total liabilities	23,631,188	41,434,801
Series A-1 redeemable preferred stock, $0.001 par value; 50,000,000 shares authorized, 113 and 113 shares issued and outstanding; aggregate liquidation value,	1,348,642	1,272,441

net of discounts: $1,408,958 and $1,349,657, respectively		
Commitments and contingencies		
STOCKHOLDERS' DEFICIT:		
Preferred stock, Series B; $0.001 par value; 50,000,000 shares authorized, 1,000 shares issued and outstanding	1	1
Preferred stock, Series C; $0.001 par value; 50,000,000 shares authorized, 800 and 400 shares issued and outstanding at June 30, 2011 and December 31, 2010, respectively	1	-
Common stock, $0.001par value; 1,750,000,000 shares authorized, 1,588,670,748 and 1,439,826,362 shares issued and outstanding at June 30, 2011 and December 31, 2010, respectively	1,588,671	1,439,826
Additional paid-in capital	200,370,360	166,033,976
Promissory notes receivable and accrued interest, net of discount of $4,282,786 and $3,322,630, respectively	(18,978,857)	(10,177,370)
Accumulated deficit	(189,179,346)	(180,949,523)
Total stockholders' deficit	(6,199,170)	(23,653,090)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$18,780,660	$19,054,152

The accompanying notes are an integral part of these consolidated financial statements.

ADVANCED CELL TECHNOLOGY, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2011 AND 2010
(UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Revenue (License fees and royalties)	$153,688	$205,158	$307,376	$410,316
Cost of Revenue	281,500	66,650	304,400	133,300
Gross profit (loss)	(127,812)	138,508	2,976	277,016
Operating expenses:				
Research and development	1,532,271	1,484,141	3,007,044	5,379,722
General and administrative expenses	1,951,728	1,349,219	5,149,254	12,567,462
Change in estimate of accrued liabilities	-	(1,569,966)	-	(1,569,966)
Loss on settlement of litigation	-	-	294,144	-
Total operating expenses	3,483,999	1,263,394	8,450,442	16,377,218
Loss from operations	(3,611,811)	(1,124,886)	(8,447,466)	(16,100,202)
Non-operating income (expense):				
Interest income	10,765	7,936	22,549	10,979
Interest expense and late fees	(272,171)	(2,429,519)	(953,881)	(5,782,293)
Gain on forgiveness of debt	-	27,973	-	27,973
Finance cost	(245,734)	(493,110)	(2,871,609)	(1,602,400)
Adjustments to fair value of derivatives	(701,198)	6,942,005	4,088,221	8,526,709
Total non-operating income (expense)	(1,208,338)	4,055,285	285,280	1,180,968
Loss before income tax	(4,820,149)	2,930,399	(8,162,186)	(14,919,234)
Income tax	-	-	-	-
Net loss	$(4,820,149)	$2,930,399	$ (8,162,186)	$ (14,919,234)
Weighted average shares outstanding :				
Basic and diluted	1,543,519,167	882,666,998	1,510,945,682	708,524,844
Loss per share:				
Basic and diluted	$(0.00)	$0.00	$ (0.01)	$ (0.02)

The accompanying notes are an integral part of these consolidated financial statements.

ADVANCED CELL TECHNOLOGY, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIT
FOR THE SIX MONTHS ENDED JUNE 30, 2011

	Series B Preferred Stock		Series C Preferred Stock		Common Stock		Additional Paid-in	Promissory Notes		Tota
	Shares	Amount	Shares	Amount	Shares	Amount	Capital	Receivable, net	Accumulated Deficit	Stockho Defi
Balance December 31, 2010	1,000	$1	400	$-	1,439,826,362	$1,439,826	$166,033,976	$(10,177,370)	$(180,949,523)	$(23,65
Convertible debenture redemptions	-	-	-	-	1,519,077	1,519	150,390	-	-	151,90
Shares issued for compensation	-	-	-	-	5,406,324	5,406	417,732	-	-	423,13
Shares issued for accrued liabilities					23,205,895	23,206	2,998,693	-	-	3,021,8
Common stock issued for settlements	-	-	-	-	7,413,000	7,413	3,492,587	-	-	3,500,0
Common stock issued for finance costs	-	-	-	-	21,987,829	21,988	3,935,821	-	-	3,957,8
Warrant exercises	-	-	-	-	33,209,614	33,210	9,112,633	-	-	9,145,8
Option exercises	-	-	-	-	1,386,126	1,386	196,276	-	-	197,66
Shares issued for services	-	-	-	-	2,381,406	2,381	473,519	-	-	475,90
Accrued dividends on Series B and C Preferred Stock	-	-	-	-	-	-	638,202	-	(638,202)	-

Accretion of note receivable discount Series B and C Preferred Stock	-	-	-	-	-	-	-	(570,565)	570,565	-
Option compensation charges	-	-	-	-	-	-	741,946	-	-	741,94
Issuance of Series C preferred stock	-	-	400	1	-	-	3,999,999	-	-	4,000,(
Issuance of Common Stock to Socius for note receivable	-	-	-	-	43,612,596	43,613	6,815,489	(6,859,102)	-	-
Common stock issued upon exercise of Series C preferred stock warrants and issuance of note receivable	-	-	-	-	8,722,519	8,723	1,363,097	(1,371,820)	-	-
Net loss for the six months ended June 30, 2011	-	-	-	-	-	-	-	-	(8,162,186)	(8,162
Balance June 30, 2011 (unaudited)	1,000	$1	800	$1	1,588,670,748	$1,588,671	$200,370,360	$(18,978,857)	$(189,179,346)	$ (6,199

The accompanying notes are an integral part of these consolidated financial statements

ADVANCED CELL TECHNOLOGY, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2011 AND 2010
(UNAUDITED)

	Six Months Ended June 30,	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(8,162,186)	$(14,919,234)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	38,394	67,437
Amortization	627,986	5,332,761
Redeemable preferred stock dividend accrual	59,301	38,333
Stock based compensation	741,946	536,816
Adjustments to fair value of derivatives	(4,088,221)	(8,526,709)
Shares of common stock issued for services	475,900	11,207,368
Shares of common stock issued for compensation	423,138	
Non-cash financing costs	2,871,609	1,602,400
Loss on settlement of litigation	294,144	-
Warrants and options issued for consulting services	769,347	97,159
Gain on forgiveness of debt	-	(27,973)
(Increase) / decrease in assets:		
Prepaid expenses	(344,497)	9,054
Increase / (decrease) in current liabilities:		
Accounts payable and accrued expenses	(396,056)	(401,868)
Deferred revenue	-	150,000
Net cash used in operating activities	(6,689,195)	(4,834,456)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(36,830)	(173,899)
Payment of lease deposits	-	(12,596)
Net cash used in investing activities	(36,830)	(186,495)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from exercise of warrants	2,950,940	3,700
Proceeds from issuance of convertible debentures	-	1,685,000
Proceeds from convertible promissory notes	-	2,650,000
Proceeds from issuance of Series A-1 convertible preferred stock, net	-	830,165
Proceeds from issuance of Series B preferred stock, net	4,000,000	1,985,000
Net cash provided by financing activities	6,950,940	7,153,865
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	224,915	2,132,914
CASH AND CASH EQUIVALENTS, BEGINNING BALANCE	15,889,409	2,538,838

CASH AND CASH EQUIVALENTS, ENDING BALANCE	$16,114,324	$4,671,752
CASH PAID FOR:		
Interest	$-	$-
Income taxes	$-	$9,244
SUPPLEMENTAL DISCLOSURE OF NON-CASH FINANCING ACTIVITIES:		
Issuance of 1,519,077 and 57,505,561 shares of common stock in redemption of debt	$151,909	$4,716,989
Issuance of 0 and 59,802,482 shares of common stock in conversion of debt and preferred stock	$-	$4,608,355
Issuance of note receivable on issuance of shares and exercise of warrants for 52,335,115 and 32,589,112 shares of common stock	$9,600,000	$3,375,000
Record note receivable discount related to Series C preferred stock	1,369,078	-
Issuance of 30,618,895 and 178,600 shares of common stock for liabilities	$6,227,755	$12,502
Issuance of 0 and 28,600 shares of common stock for accrued settlement	$-	$2,002
Issuance of 0 and 150,000 shares of common stock for services	$-	10,500
Issuance of 0 and 107,051,697 shares of common stock in payment of executive compensation	$-	9,634,653
Issuance of 0 and 250,000 shares of common stock in payment of financing costs	$-	$22,500
Series B and C preferred stock dividend	$638,202	$70,958
Interest accreted on promissory notes receivable	$570,565	$70,822
Issuance of 5,239,895 and 32,589,112 shares of common stock for cashless exercise of warrants	$1,268,936	$3,375,000
Issuance of 1,386,126 and 0 shares of common stock for exercise of options	$197,663	$-

The accompanying notes are an integral part of these consolidated financial statements.

ADVANCED CELL TECHNOLOGY, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. ORGANIZATIONAL MATTERS

Organization and Nature of Business

Advanced Cell Technology, Inc. (the "Company") is a biotechnology company, incorporated in the state of Delaware, focused on developing and commercializing human embryonic and adult stem cell technology in the emerging fields of regenerative medicine. Principal activities to date have included obtaining financing, securing operating facilities, and conducting research and development. The Company has no therapeutic products currently available for sale and does not expect to have any therapeutic products commercially available for sale for a period of years, if at all. These factors indicate that the Company's ability to continue its research and development activities is dependent upon the ability of management to obtain additional financing as required.

2.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation —The Company follows accounting standards set by the Financial Accounting Standards Board ("FASB"). The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). References to GAAP issued by the FASB in these footnotes are to the FASB Accounting Standards Codification,™ sometimes referred to as the Codification or ASC.

Principles of Consolidation — The accounts of the Company and its wholly-owned subsidiary Mytogen, Inc. ("Mytogen") are included in the accompanying consolidated financial statements. All intercompany balances and transactions were eliminated in consolidation.

Segment Reporting —ASC 280, "Segment Reporting" requires use of the "management approach" model for segment reporting. The management approach model is based on the way a company's management organizes segments within the company for making operating decisions and assessing performance. The Company determined it has one operating segment. Disaggregation of the Company's operating results is impracticable, because the Company's research and development activities and its assets overlap, and management reviews its business as a single operating segment. Thus, discrete financial information is not available by more than one operating segment.

Use of Estimates — These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States and, accordingly, require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Specifically, the Company's management has estimated variables used to calculate the Black-Scholes option pricing model used to value derivative instruments as discussed below under "Fair Value Measurements". In addition, management has estimated the expected economic life and value of the Company's licensed technology, the Company's deferred tax asset and valuation allowance, share-based payments for compensation to employees, directors, consultants, lenders and investment banks, and the useful lives of the Company's fixed assets and its accounts receivable allowance. Actual results could differ from those estimates.

Reclassifications — Certain prior year financial statement balances have been reclassified to conform to the current year presentation.

Cash and Cash Equivalents — Cash equivalents are comprised of certain highly liquid investments with maturities of three months or less when purchased. The Company maintains its cash in bank deposit accounts, which at times, may exceed federally insured limits. The Company has not experienced any losses related to this concentration of risk. As of June 30, 2011 and December 31, 2010, the Company had deposits in excess of federally-insured limits totaling $15,614,324 and $15,399,150, respectively.

Property and Equipment — The Company records its property and equipment at historical cost. The Company expenses maintenance and repairs as incurred. Upon disposition of property and equipment, the gross cost and accumulated depreciation are written off and the difference between the proceeds and the net book value is recorded as a gain or loss on sale of assets. In the case of certain assets acquired under capital leases, the assets are recorded net of imputed interest, based upon the net present value of future payments. Assets under capital lease are pledged as collateral for the related lease.

The Company provides for depreciation over the assets' estimated useful lives as follows:

Machinery & equipment	4 years
Computer equipment	3 years
Office furniture	4 years
Leasehold improvements	Lesser of lease life or economic life
Capital leases	Lesser of lease life or economic life

ADVANCED CELL TECHNOLOGY, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Equity Method Investment — The Company follows ASC 323 "Investments-Equity Method and Joint Ventures" in accounting for its investment in the joint venture. In the event the Company's share of the joint venture's net losses reduces the Company's investment to zero, the Company will discontinue applying the equity method and will not provide for additional losses unless the Company has guaranteed obligations of the joint venture or is otherwise committed to provide further financial support for the joint venture. If the joint venture subsequently reports net income, the Company will resume applying the equity method only after its share of that net income equals the share of net losses not recognized during the period the equity method was suspended.

Deferred Issuance Costs — The deferred issuance costs consist of the following:

(a) Payments, either in cash or share-based, made in connection with the sale of debentures which are amortized using the effective interest method over the lives of the related debentures. These deferred issuance costs are charged to financing costs when and if the related debt instrument is retired or converted early. The weighted average amortization period for deferred debt issuance costs is 48 months.
(b) Payments made to secure commitments under certain financing arrangements. These amounts are recognized in financing costs ratably over the period of the financing arrangements, and are recognized in financing costs immediately if the arrangement is cancelled, forfeited or the utility of the arrangement to the company is otherwise compromised.
(c) Payments made to financial institutions and consulting firms in order to provide financing related services. These costs are being amortized over the terms of the related agreements.

Intangible and Long-Lived Assets— The Company follows ASC 360-10, "Property, Plant, and Equipment," which established a "primary asset" approach to determine the cash flow estimation period for a group of assets and liabilities that represents the unit of accounting for a long-lived asset to be held and used. Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The carrying amount of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less cost to sell. Through June 30, 2011, the Company had not experienced impairment losses on its long-lived assets.

Fair Value of Financial Instruments — For certain financial instruments, including accounts payable, accrued expenses and convertible promissory notes, the carrying amounts approximate fair value due to their relatively short maturities.

Fair Value Measurements — The Company applies the provisions of ASC 820-10, "Fair Value Measurements and Disclosures." ASC 820-10 defines fair value, and establishes a three-level valuation hierarchy for disclosures of fair value measurement that enhances disclosure requirements for fair value measures. The carrying amounts reported in the consolidated balance sheets for receivables and current liabilities each qualify as financial instruments and are a reasonable estimate of their fair values because of the short period of time between the origination of such instruments and their expected realization and their current market rate of interest. The three levels of valuation hierarchy are defined as follows:

- Level 1 inputs to the valuation methodology are quoted prices for identical assets or liabilities in active markets.

- Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of

the financial instrument.

- Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The Company analyzes all financial instruments with features of both liabilities and equity under ASC 480, "Distinguishing Liabilities From Equity" and ASC 815, "Derivatives and Hedging." Derivative liabilities are adjusted to reflect fair value at each period end, with any increase or decrease in the fair value being recorded in results of operations as adjustments to fair value of derivatives. The effects of interactions between embedded derivatives are calculated and accounted for in arriving at the overall fair value of the financial instruments. In addition, the fair values of freestanding derivative instruments such as warrant and option derivatives are valued using the Black-Scholes model.

The Company uses Level 2 inputs for its valuation methodology for the warrant derivative liabilities and embedded conversion option liabilities as their fair values were determined by using the Black-Scholes option pricing model based on various assumptions. The Company's derivative liabilities are adjusted to reflect fair value at each period end, with any increase or decrease in the fair value being recorded in results of operations as adjustments to fair value of derivatives.

ADVANCED CELL TECHNOLOGY, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

At June 30, 2011, the Company identified the following assets and liabilities that are required to be presented on the balance sheet at fair value:

Derivative Liabilities	Fair Value As of June 30, 2011	Fair Value Measurements at June 30, 2011 Using Fair Value Hierarchy Level 1	Level 2	Level 3
Warrant derivative liabilities	$ 16,931,286	$ -	16,931,286	-
Embedded conversion option liabilities	598,229	-	598,229	-
	$ 17,529,515	$ -	17,529,515	-

For the three and six months ended June 30, 2011 the Company recognized a loss of $701,198 and a gain of $4,088,221, respectively, for the changes in the valuation of derivative liabilities. For the three and six months ended June 30, 2010 the Company recognized a gain of $6,942,005 and $8,526,709, respectively, for the changes in the valuation of derivative liabilities.

The Company did not identify any non-recurring assets and liabilities that were recorded at fair value during the periods presented.

Revenue Recognition and Deferred Revenue — The Company's revenues are primarily generated from license and research agreements with collaborators. Licensing revenue is recognized on a straight-line basis over the shorter of the life of the license or the estimated economic life of the patents related to the license.

License fee revenue begins to be recognized in the first full month following the effective date of the license agreement. Deferred revenue represents the portion of the license and other payments received that has not been earned. Costs associated with the license revenue are deferred and recognized over the same term as the revenue. Reimbursements of research expense pursuant to grants are recorded in the period during which collection of the reimbursement becomes assured, because the reimbursements are subject to approval.

In some cases, the company is entitled to receive royalty payments from licensees. In such cases, the company recognizes the royalties when they are earned and the collectability of those royalty payments is reasonably assured.

In connection with its license agreements, the Company recorded $153,688, and $307,376 in license fee revenue for the three and six months ended June 30, 2011, respectively, and the Company recorded $205,158, and $410,316 in license fee revenue for the three and six months ended June 30, 2010, respectively in its accompanying consolidated statements of operations, and the remainder of the license fees have been accrued in deferred revenue at June 30, 2011 and 2010, respectively.

Research and Development Costs — Research and development costs consist of expenditures for the research and development of patents and technology, which cannot be capitalized. The Company's research and development costs consist mainly of payroll and payroll related expenses, research supplies and research grants. Reimbursements of research expense pursuant to grants are recorded in the period during which collection of the reimbursement becomes assured, because the reimbursements are subject to approval. Research and development costs are expensed as incurred.

Share-Based Compensation —The Company records stock-based compensation in accordance with ASC 718, "Compensation – Stock Compensation." ASC 718 requires companies to measure compensation cost for stock-based employee compensation at fair value at the grant date and recognize the expense over the employee's requisite service period. The Company recognizes in the statement of operations the grant-date fair value of stock options and other equity-based compensation issued to employees and non-employees. There were 54,583,618 options outstanding as of June 30, 2011.

Income Taxes — Deferred income taxes are provided using the liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carry forwards, and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of the changes in tax laws and rates of the date of enactment.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination.

ADVANCED CELL TECHNOLOGY, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Applicable interest and penalties associated with unrecognized tax benefits are classified as additional income taxes in the statements of operations.

Net Loss Per Share — Earnings per share is calculated in accordance with the ASC 260-10, "Earnings Per Share." Basic earnings-per-share is based upon the weighted average number of common shares outstanding. Diluted earnings-per-share is based on the assumption that all dilutive convertible shares and stock options were converted or exercised. Dilution is computed by applying the treasury stock method. Under this method, options and warrants are assumed to be exercised at the beginning of the period (or at the time of issuance, if later), and as if funds obtained thereby were used to purchase common stock at the average market price during the period. The Company accrues dividends on the Series B Preferred Stock and the Series C Preferred Stock at 10% and 6%, respectively. The dividends are accrued from the issuance date and compounded annually. As discussed in Note 8, the Company offsets the accrued dividends for the Series B and C Preferred Stock by the accretion of the note receivable discounts. The following tables show the amount available to common stockholders for the three and six months ended June 30, 2011 and 2010.

	Three Months Ended June 30,	
	2011	2010
Net loss	$ (4,820,149)	$ 2,930,399
Dividends for preferred stockholders	(327,485)	(58,219)
Accretion of note receivable discount	319,510	58,107
Net income (loss) available to common stockholders	$ (4,828,124)	$ 2,930,287

	Six Months Ended June 30,	
	2011	2010
Net loss	$ (8,162,186)	$ (14,919,234)
Dividends for preferred stockholders	(638,202)	(70,959)
Accretion of note receivable discount	570,565	70,822
Net loss available to common stockholders	$ (8,229,823)	$ (14,919,371)

At June 30, 2011 and 2010, approximately 132,371,922 and 128,298,797 potentially dilutive shares, respectively, were excluded from the shares used to calculate diluted earnings per share as their inclusion would be anti-dilutive.

Concentrations and Other Risks — Currently, the Company's revenues and accounts receivable are concentrated on a small number of customers. The following table shows the Company's concentrations of its revenue for those customers comprising greater than 10% of total license revenue for the three and six months ended June 30, 2011 and 2010:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Exeter Life Sciences, Inc.	20 %	15 %	20 %	15 %
START Licensing, Inc.	16 %	12 %	16 %	12 %
International Stem Cell Corporation	24 %	18 %	24 %	18 %
Transition Holdings, Inc.	-	25 %	-	25 %

CHA Biotech and SCRMI	21	%	16	%	21	%	16	%
Lifeline	11	%	*		11	%	*	

*License revenue earned during the period was less than 10% of total license revenue.

ADVANCED CELL TECHNOLOGY, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Other risks include the uncertainty of the regulatory environment and the effect of future regulations on the Company's business activities. As the Company is a biotechnology research and development company, there is also the attendant risk that someone could commence legal proceedings over the Company's discoveries. Acts of God could also adversely affect the Company's business.

Recent Accounting Pronouncements

In December 2010, the FASB issued updated guidance on when and how to perform certain steps of the periodic goodwill impairment test for public entities that may have reporting units with zero or negative carrying amounts. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010, with early adoption prohibited. The adoption of this standard update did not impact the Company's consolidated financial statements.

In December 2010, the FASB also issued guidance to clarify the reporting of pro forma financial information related to business combinations of public entities and to expand certain supplemental pro forma disclosures. This guidance is effective prospectively for business combinations that occur on or after the beginning of the fiscal year beginning on or after December 15, 2010, with early adoption permitted. It is applicable to the Company's fiscal year beginning June 1, 2011. The adoption of this standard update did not impact the Company's consolidated financial statements.

In May 2011, the FASB issued guidance to amend certain measurement and disclosure requirements related to fair value measurements to improve consistency with international reporting standards. This guidance is effective prospectively for public entities for interim and annual reporting periods beginning after December 15, 2011, with early adoption by public entities prohibited. The Company is currently evaluating this guidance, but does not expect its adoption will have a material effect on its consolidated financial statements.

In June 2011, the FASB issued new guidance on the presentation of comprehensive income that will require a company to present components of net income and other comprehensive income in one continuous statement or in two separate, but consecutive statements. There are no changes to the components that are recognized in net income or other comprehensive income under current GAAP. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011, with early adoption permitted. The Company is currently evaluating this guidance, but does not expect its adoption will have a material effect on its consolidated financial statements.

ADVANCED CELL TECHNOLOGY, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

3. SETTLEMENT AND CANCELATION OF LICENSE AGREEMENT

On December 18, 2008, the Company entered into a license agreement with Transition Holdings, Inc. for certain of the Company's non-core technology. Under the agreement, the Company received $2,000,000, less wire fees. The Company further received $1,500,000 in 2009. The Company had initially recorded the transactions as deferred revenue and was amortizing the revenue over its 17-year patent useful life. In December 2010, the Company received notice that Transition Holdings, Inc. was disputing the nature of the arrangement, and subsequently entered into a settlement arrangement with Transition Holdings, Inc. As a result of this settlement, the Company reclassified the unamortized license fee in the amount of $3,205,856 from deferred revenue to accrued settlement. On February 15, 2011, the Company issued 7,413,000 shares as payment in full, relieved the accrued liability of $3,205,856 and recorded a loss on settlement of $294,144 which is recorded as "loss on settlement of litigation" in the accompanying consolidated statement of operations.

4. INVESTMENT IN JOINT VENTURE

On December 1, 2008, the Company and CHA Bio & Diostech Co., Ltd. ("Cha Biotech") formed an international joint venture. The new company, Stem Cell & Regenerative Medicine International, Inc. ("SCRMI"), will develop human blood cells and other clinical therapies based on the Company's hemangioblast program, one of the Company's core technologies. Under the terms of the agreement, the Company purchased upfront a 33% interest in the joint venture, and will receive another 7% interest upon fulfilling certain obligations under the agreement over a period of 3 years. The Company's contribution includes (a) the uninterrupted use of a portion of its leased facility at the Company's expense, (b) the uninterrupted use of certain equipment in the leased facility, and (c) the release of certain of the Company's research and science personnel to be employed by the joint venture. In return, for a 60% interest, CHA has agreed to contribute $150,000 cash and to fund all operational costs in order to conduct the hemangioblast program. Effective May 1, 2010, the Company was no longer obligated to provide laboratory space to SCRMI, and the Company holds a 40% interest in the joint venture and CHA Bio & Diostech, Ltd. owns a 60% interest. The two partners to the joint venture are in negotiations on further funding of the joint venture, but there can be no assurances that an agreement will be reached. Any financial statement impact at this time is unclear should an agreement not be reached.

The Company has agreed to collaborate with the joint venture in securing grants to further research and development of its technology. Additionally, SCRMI has agreed to pay the Company a fee of $500,000 for an exclusive, worldwide license to the Hemangioblast Program. The Company recorded $7,353, and $14,706 in license fee revenue for the three and six months ended June 30, 2011 and $7,353 and $14,706 for the three and six months ended June 2010, respectively, in its accompanying consolidated statements of operations, and the balance of unamortized license fee of $425,245 and $439,951 is included in deferred revenue in the accompanying consolidated balance sheets at June 30, 2011 and December 31, 2010, respectively.

The following table is a summary of key financial data for the joint venture as of and for the six months ended June 30, 2011 and 2010.

	June 30,	
	2011	2010
Current assets	$ 578,142	$ 650,133
Noncurrent assets	$ 119,468	$ 701,262

Current liabilities	$ 1,447,504	$ 1,045,104
Noncurrent liabilities	$ 2,265,463	$ 607,527
Net revenue	$ 38,336	$ 13,386
Net loss	$ (839,237)	$ (975,573)

5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30, 2011 and December 31, 2010:

	June 30, 2011	December 31, 2010
Machinery & equipment	$ 1,488,527	$ 1,488,527
Computer equipment	449,893	449,893
Office furniture	82,822	76,201
Leasehold improvements	311,592	281,383
Capital leases	51,235	51,235
	2,384,069	2,347,239
Accumulated depreciation	(2,200,531)	(2,162,137)
Property and equipment, net	$ 183,538	$ 185,102

ADVANCED CELL TECHNOLOGY, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Depreciation expense for the three and six months ended June 30, 2011 amounted to $17,109 and $38,394, respectively. Depreciation expense for the three and six months ended June 30, 2010 amounted to $22,355and $67,437, respectively.

6. CONVERTIBLE PROMISSORY NOTES

2010 JMJ Convertible Promissory Notes

During 2010, the Company issued three convertible promissory notes to JMJ Financial, for a total of $3,000,000 available to receive in cash, for a principal sum of $3,850,000, which included an original issue discount of $850,000. The notes bear a one-time interest charge of 10% on the principal sum. The holder may at its election convert all or part of these notes into shares of the Company's common stock at the conversion rate of the lesser of: (a) $0.10 per share, or (b) 85% of the average of the three lowest trade prices in the 20 trading days prior to the conversion. During 2010, the Company received the entire $3,000,000 on these notes. Of the $3,850,000 borrowed, the Company converted $3,562,215 into 76,465,706 shares of common stock during 2010. The notes mature on March 30, 2013.

As of June 30, 2011 and December 31, 2010, the convertible promissory notes were convertible at the option of the holders into a total of 2,877,850 shares, subject to anti-dilution and other customary adjustments. The fair value of the embedded conversion option was $450,381 and $628,919 as of June 30, 2011 and December 31, 2010, respectively. The decrease in the fair value of this liability was $178,538 and $19,552 during the three and six months ended June 30, 2011, an increase in fair value of $539,382 during the three months ended June 30, 2010 and a decrease in fair value of $280,601 during the six months ended June 30, 2010, which was recorded through the results of operations as an adjustment to fair value of derivatives. The assumptions used in the Black-Scholes option pricing model at June 30, 2011 are as follows: (1) dividend yield of 0%; (2) expected volatility of 165%, (3) risk-free interest rate of 0.47%, and (4) expected life of 1.75 years.

Interest expense from amortization of debt discounts related to the JMJ Convertible Promissory Notes for the three and six months ended June 30, 2011 was $31,629 and $62,910, respectively. Interest expense from amortization of debt discounts related to the JMJ Convertible Promissory Notes for the three and six months ended June 30, 2010 was $1,179,480 and $1,841,668, respectively.

2009 Convertible Promissory Notes

On November 12, 2009, the Company entered into a subscription agreement (the “Subscription Agreement”) with certain subscribers (the “Subscribers”). For the sale of certain original issue discount promissory notes (“2009 Convertible Promissory Notes”). The 2009 Convertible Promissory Notes are convertible at the option of the holder into shares of the Company’s common stock at a conversion price of $0.10.

The initial closing under the Subscription Agreement occurred on November 12, 2009, pursuant to which, the Company sold 2009 Convertible Promissory Notes (“First Close Notes”) in the principal amount of $1,662,000 for a purchase price of $1,385,000. In addition, on November 13, 2009, the Company sold 2009 Convertible Promissory Notes in the principal amount of $441,000 for a purchase price of $367,500 (including $67,500 previously owed to a subscriber for legal services). The closing that occurred on November 13, 2009 was deemed part of the initial closing, such that, pursuant to the initial closing under the Subscription Agreement, the Company sold 2009 Convertible Promissory Notes in the aggregate principal amount of $2,103,000 for an aggregate purchase price of $1,752,500.

On February 18, 2010, the Company completed the second closing, issuing additional debentures ("Second Close Debentures"), under the same terms of the initial closing, in the principal amount of up to $2,076,451 for a purchase price of $1,730,375 (including $45,375 previously owed to a subscriber for legal services).

The Company was required to redeem the 2009 Convertible Promissory Notes monthly commencing in May 2010 under the first closing and September 2010 under the second closing, in the amount of 14.28% of the initial principal amount of the 2009 Convertible Promissory Notes, in cash or common stock at the Company's option, until the 2009 Convertible Promissory Notes were paid in full. The maturity date of the 2009 Convertible Promissory Notes, first close is November 12, 2010, and March 1, 2011 under the second close.

During the six months ended June 30, 2011, the Company issued 1,519,077 shares of common stock for debt of $150,390. As of June 30, 2011 and December 31, 2010, the outstanding debt related to the 2009 Convertible Promissory Notes is $0 and $132,680 (net of discount of $19,229), respectively.

ADVANCED CELL TECHNOLOGY, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Interest expense from amortization of debt discounts related to the 2009 Convertible Promissory Notes for the three and six months ended June 30, 2011 was $0 and $19,229, respectively and for the three and six months ended June 30, 2010 was $910,910 and $2,973,566, respectively.

7. SERIES A-1 REDEEMABLE CONVERTIBLE PREFERRED STOCK

On March 3, 2009, the Company entered into a $5 million credit facility ("Facility") with a life sciences fund. Under the terms of the agreement, the Company may draw down funds, as needed, from the investor through the issuance of Series A-1 redeemable convertible preferred stock, par value $.001, at a basis of 1 share of Series A-1 redeemable convertible preferred stock for every $10,000 invested. The preferred stock pays dividends, in kind of preferred stock, at an annual rate of 10%, matures in four years from the initial drawdown date, and is convertible into common stock at $0.75 per share at the option of the holder.

However, in the event the closing price of the common stock during the 5 trading days following the notice to convert falls below 75% of the average of the closing bid price in the 5 trading days prior to the closing date, the investor may, at its option, and without penalty, decline to purchase the applicable put shares on the closing date.

The Company is required to keep available out of its authorized but unissued shares of common stock, such number of shares sufficient to effect a conversion of all then outstanding shares of the Series A-1 redeemable convertible preferred stock.

The Series A-1 redeemable preferred stock has been classified within the mezzanine section between liabilities and equity in the consolidated balance sheets because it is considered conditionally redeemable. The embedded conversion option has been recorded as a derivative liability in the Company's consolidated balance sheets, and changes in the fair value each reporting period are reported in adjustments to fair value of derivatives in the consolidated statements of operations.

The outstanding balance at June 30, 2011 and December 31, 2010 was $1,130,165, respectively, and is convertible into 1,506,887 shares of the Company's common stock. The Company values the conversion option initially when each draw takes place (see section entitled "Conversion Option" in this footnote below). As of June 30, 2011, the Company has drawn $3,418,166 of the $5,000,000 commitment.

The following table summarizes the Series A-1 redeemable convertible preferred stock outstanding at June 30, 2011 and December 31, 2010:

		June 30, 2011	December 31, 2010
Principal due	$	1,130,165	1,130,165
Accrued dividend		278,793	219,492
Debt discount		(60,317)	(77,216)
Non-current portion	$	1,348,641	1,272,441
Aggregate liquidation value*	$	1,408,958	1,349,657

* Represents the sum of principal due and accrued dividends.

The dividends are accrued at a rate of 10% per annum, and the Company records the accrual as interest expense in its consolidated statements of operations in the period incurred. The Company recorded accrued dividends on the Series A-1 redeemable convertible preferred stock of $31,152 and $59,302 for the three and six months ended June 30, 2011, respectively, and $28,446 and $38,334 for the three and six months ended June 30, 2010, respectively, which is recorded as interest expense in the accompanying consolidated statements of operations.

Redemption Rights

Upon the earlier of (i) the fourth anniversary of the issuance date, and (ii) the occurrence of a major transaction, each holder shall have the right, to require the Company to redeem all or a portion of such holder's share of Series A-1 preferred stock, at a price per share equal to the Series A-1 liquidation value. The Company has the option to pay the redemption price in cash or in shares of its common stock. The Company shall have the right to redeem all or a portion of the shares of Series A-1 redeemable preferred stock, at any time at a price per share of Series A-1 redeemable preferred stock equal to 100% of the Series A-1 liquidation value.

Termination and Liquidation Rights

The Company may terminate this agreement and its right to initiate future draw-downs by providing 30 days advanced written notice to the investor, subject to certain limitations.

ADVANCED CELL TECHNOLOGY, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Upon any liquidation, dissolution or winding up of the Company, the holders of the Series A-1 redeemable convertible preferred stock shall first be entitled to be paid out of the assets of the Company available for distribution (subject to certain limitations) to its stockholders an amount with respect to each share of Series A-1 redeemable convertible preferred stock equal to $10,000, plus any accrued by unpaid dividends.

Conversion Option:
The embedded conversion option was valued at $147,848 and $212,447 at June 30, 2011 and December 31, 2010, respectively, at fair value using the Black-Scholes model. The decrease in the fair value of the embedded conversion option liability of $10,461 and $64,599 for the three and six months ended June 30, 2011, respectively, and $29,027 and $528,268 for the three and six months ended June 30, 2010, respectively, was recorded through the results of operations as an adjustment to fair value of derivatives.

The assumptions used in the Black-Scholes model to value the embedded conversion option at June 30, 2011 were as follows: (1) dividend yield of 0%; (2) expected volatility of 165%, (3) risk-free interest rate of 0.80%, and (4) expected life of 1.77 years.

Commitment fee and expenses
For providing investor relations services in connection with the Series A-1 redeemable convertible preferred stock credit facility, the Company issued a consultant 24,900,000 shares of its common stock on February 9, 2009. The Company valued the issuance of these shares at $4,731,000 based on a closing price of $0.19 on February 9, 2009 and recorded the value of the shares as deferred financing costs on the date they were issued. Beginning on the date of the first draw-down on April 6, 2009 (the loan maturity date is 4 years after the initial draw-down), the Company amortizes these fees over the term of the Series A-1 redeemable convertible preferred stock facility which represents the implied term of the investor relations contract.

The Company also incurred a non-refundable commitment fee to the holder of this convertible preferred stock facility in the amount of $250,000. The initial fee went into delinquency and was modified on October 19, 2009. (See modification section in the footnote below.)

Beginning on the date of the first draw-down on April 6, 2009 (the loan maturity date is 4 years after the initial draw-down), the Company amortizes the deferred issuance costs ratably over the term of the Series A-1 redeemable convertible preferred stock facility.

Interest expense from amortization of the debt discount and deferred costs for the three and six months ended June 30, 2011 was $111,075 and $220,930, respectively, and for the three and six months ended June 30, 2010 was $111,075 and $426,690, respectively.

Modification of Series A-1 Convertible Redeemable Preferred Stock:
On October 19, 2009, the Company entered into two letter agreements with Volation, pursuant to which (i) the Company reduced the conversion price of its existing outstanding Series A-1 convertible preferred stock issued to Volation to $.10 per share resulting in 22,880,000 shares of Common Stock upon conversion, (ii) the Company issued Volation 2,500,000 shares of its Common Stock at $0.10 per share in payment of an outstanding commitment fee, and (iii) Volation waived the delinquency in non-payment of the $250,000 commitment fee required pursuant to the preferred stock purchase agreement between the Company and Volation. The commitment fee was paid during the year ended December 31, 2010 by reducing the proceeds paid by the Series A-1 Preferred Stock investors by the

amount of the commitment fee.

8. SERIES B PREFERRED STOCK

On November 2, 2009 (“Effective Date”), the Company entered into a preferred stock purchase agreement with Optimus Life Sciences Capital Partners, LLC (“Investor” or “Optimus”). Pursuant to the purchase agreement, the Company agreed to sell, and the Investor agreed to purchase, in one or more purchases from time to time at the Company’s sole discretion, (i) up to 1,000 shares of Series B preferred stock at a purchase price of $10,000 per share, for an aggregate purchase price of up to $10,000,000, and (ii) five-year warrants to purchase shares of the Company’s common stock with an aggregate exercise price equal to 135% of the purchase price paid by the Investor, at an exercise price per share as follows:

- On the sixth (6th) Trading Day following the Tranche Notice Date, the Exercise Price of the Optimus Warrant shall be adjusted to equal the VWAP for the 5 trading days beginning on and including the Tranche Notice Date (as so adjusted, the “Adjusted Exercise Price”); and

- If the Adjusted Exercise Price results in additional Warrant Shares being issuable to the Holder, such additional shares shall be delivered to the Holder within one Trading Day following the Adjustment Date. If the Adjusted Exercise Price results in less Warrant Shares being issuable to the Holder, the excess Warrant Shares shall be returned by the Holder to the Company within one Trading Day following on the Adjustment Date.

ADVANCED CELL TECHNOLOGY, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The Warrants were issued in replacement of a five-year warrant to purchase 119,469,027 shares of common stock with an exercise price per share of $0.113 the Company issued on the Effective Date.

The Company agreed to pay to the Investor a commitment fee of $500,000, at the earlier of the closing of the first Tranche or the six month anniversary of the effective date, payable at the Company's election in cash or common stock valued at 90% of the volume weighted average price of the Company's common stock on the five trading days preceding the payment date. The $500,000 commitment fee was outstanding and was recorded in accrued expenses in the Company's consolidated balance sheet at December 31, 2009. During 2010, the Company issued 50 shares of preferred stock as payment for the commitment fee.

During 2010, the Company delivered tranche notices to Optimus Life Sciences Capital Partners, LLC for delivery of a total of 1,000 shares under the Series B preferred stock for funding in the amount of $10,000,000 ($9,485,000 in cash proceeds, $500,000 of commitment fee applied, and $15,000 in legal fees).

During 2010, in connection with the funding, the Company issued 95,870,362 shares of its common stock upon exercise of the same number of warrants, which were granted simultaneously with the Company's tranche notices. During 2010, the Company received secured promissory notes in the amount of $13,500,000 to settle the warrant exercise.

Dividends
Commencing on the date of the issuance of any shares of Series B preferred stock, Holders of Series B preferred stock will be entitled to receive dividends on each outstanding share of Series B preferred stock, which will accrue in shares of Series B preferred stock at a rate equal to 10% per annum from the issuance date compounded annually. Accrued dividends will be payable upon redemption of the Series B preferred stock. Accrued dividends were $706,970 and $196,986 at June 30, 2011 and December 31, 2010, respectively.

Redemption Rights
Upon or after the fourth anniversary of the initial issuance date, the Company will have the right, at the Company's option, to redeem all or a portion of the shares of the Series B preferred stock, at a price per share equal to 100% of the Series B liquidation value. The preferred stock may be redeemed at the Company's option, commencing 4 years from the issuance date at a price per share of (a) $10,000 per share plus accrued but unpaid dividends (the "Series B Liquidation Value"), or, at a price per share of : (x) 127% of the Series B Liquidation Value if redeemed on or after the first anniversary but prior to the second anniversary of the initial issuance date, (y) 118% of the Series B Liquidation Value if redeemed on or after the second anniversary but prior to the third anniversary of the initial issuance date, and (z) 109% of the Series B Liquidation Value if redeemed on or after the third anniversary but prior to the fourth anniversary of the initial issuance date.

Liquidation Rights
The preferred shares shall, with respect to dividend, rights upon liquidation, winding-up or dissolution, rank: (i) senior to the Company's common stock, and any other class or series of preferred stock of the Company, except Series A-1 Convertible Preferred Stock which shall rank senior in right of liquidation and pari passu with respect to dividends; and (ii) junior to all existing and future indebtedness of the Company.
If the Company determines to liquidate, dissolve or wind-up its business, it must redeem the Series B preferred stock at the prices set forth above. Upon any liquidation, dissolution or winding up of the Company the Holders of Series B preferred stock shall be first entitled to be paid out of the assets of the Company available for distribution to its

stockholders an amount with respect to each share of Series B preferred stock equal to $10,000, plus any accrued and unpaid dividends.

The Company has classified the Series B redeemable preferred stock in the equity section in its consolidated balance sheets.

Related Secured Promissory Notes Receivable:
In accordance with the terms of the Series B preferred stock agreement, Optimus issued to the Company a secured promissory note in consideration for receiving warrants under each tranche. The value of each secured promissory note equals the value of the warrants that Optimus received. Interest on the notes accrues at 2% per year, compounding annually if the interest remains unpaid at the end of each year. The note is secured by freely tradable marketable securities belonging to Optimus. Each promissory note matures on the fourth anniversary of its issuance.

In the event the Company redeems all or a portion of any shares of Series B preferred stock held by Optimus, the Company will be permitted to offset the full amount of such proceeds against amounts outstanding under the promissory notes. Accordingly, the Company included the discounted value of the secured promissory notes as a separate component of stockholders' deficit at June 30, 2011.

ADVANCED CELL TECHNOLOGY, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The value of the secured promissory notes in the accompanying consolidated balance sheet was $10,686,372, net of discounts of $2,954,750 plus accrued interest of $141,122 at June 30, 2011, reflecting a face value of $13,500,000. The value of the secured promissory notes in the accompanying consolidated balance sheet was $10,177,370, net of discounts of $3,322,630 at December 31, 2010, reflecting a face value of $13,500,000. The Company determined that a 10% discount is appropriate, in order to consistently reflect the Company's cost of borrowing under the terms of the underlying Series B preferred stock that permits offset. The Company recorded an initial discount on the promissory notes in the amount of $3,519,238 during the year ended December 31, 2010. The Company accretes interest at 10% over the respective four-year terms of the promissory notes.

During the three and six months ended June 30, 2011, the Company accreted interest on the promissory note in the amount of $257,947 and $509,002, respectively, and during the three and six months ended June 30, 2010, the Company accreted interest on the promissory note in the amount of $58,107 and $70,822, respectively, which was recorded in accumulated deficit during the periods then ended. The Company recorded dividends on its Series B preferred stock during the six months ended June 30, 2011 of $258,444 and $509,983, respectively, and during the six months ended June 30, 2010 of $58,219 and $70,958, respectively. The accrued dividends are offset by the accretion of the note receivable discount.

As of June 30, 2011 and December 31, 2010, 1,000 shares of Series B preferred stock were outstanding.

9. SERIES C PREFERRED STOCK

On December 30, 2010 (the "Series C Effective Date"), the Company entered into a securities purchase agreement (the "Series C Purchase Agreement") with Socius CG II, Ltd., a Bermuda exempted company ("Socius"). Pursuant to the Series C Purchase Agreement:

- The Company agreed to sell, and Socius agreed to purchase, in one or more purchases from time to time (each such purchase, a "Series C Tranche") in the Company's sole discretion (subject to the conditions set forth therein), (i) up to 2,500 shares of Series C Preferred Stock (the "Series C Preferred Shares") at a purchase price of $10,000 per share, for an aggregate purchase price of up to $25,000,000, and (ii) a two-year warrant (the "Socius Warrant") obligating Socius to purchase shares of the Company's common stock (the "Common Stock") with an aggregate exercise price equal to 20% of the purchase price paid by Socius for the Series C Preferred Shares sold in each Series C Tranche, at an exercise price per share equal to the closing bid price of the Company's Common Stock on the date the Company provides notice of such Series C Tranche (the "Series C Tranche Notice"). On each date that the Company delivers a Series C Tranche Notice to Socius, Socius shall also become obligated, pursuant to a right automatically vesting on such Series C Tranche Notice date, to purchase that number of shares of Common Stock (such shares of Common Stock the "Additional Investment Shares") equal in dollar amount to 100% of the Series C Tranche amount set forth in the Series C Tranche Notice at a price per share equal to the closing bid price of the Common Stock on the Series C Tranche Notice date.

- The Series C Purchase Agreement requires that, when the Company requests Socius to purchase a tranche of Series C Preferred Shares, the mandatory purchase by Socius of the related Additional Investment Shares must occur no later than sixty (60) calendar days following the Series C Tranche Notice date.

- The Socius Warrant was issued to Socius on December 30, 2010 (the "Closing Date") simultaneous with entering into the Series C Purchase Agreement. The Socius Warrant was issued with an initial exercise price per warrant is of $0.16 per share and for a total of up to 31,250,000 shares, subject to adjustment as described therein. On January 10,

2011, Socius and the Company entered into a letter agreement in which the parties agreed that, following arms-length negotiations and notwithstanding anything to the contrary in the Socius Warrant, that the initial number of shares issuable under the Socius Warrant, subject to the adjustment mechanism set forth therein, was equal to 30,000,000.

- As required by the Purchase Agreement, the Socius Warrant must be exercised for such number of shares of Common Stock equal in amount to 20% of the cumulative purchase price paid by Socius for the Series C Preferred Shares. The maximum amount of Series C Preferred Stock that Socius may become obligated to purchase under all Series C Tranches is $25,000,000. Assuming the maximum drawdown of $25,000,000 by the Company under the Series C Purchase Agreement, Socius would be required to exercise the Socius Warrant to purchase 20% of this total dollar amount, or $5,000,000 worth of shares of Common Stock.

- The Letter Agreement modified the Socius Warrant only with respect to the initial number of underlying shares and expressly provides that, except as so modified, the Socius Warrant shall remain unchanged and shall continue in full force and effect.

ADVANCED CELL TECHNOLOGY, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

- At the initial closing pursuant to the Series C Purchase Agreement, which occurred on the Closing Date, (i) Socius purchased 400 Preferred Shares and the Company received gross proceeds of $4,000,000 (ii) the Company delivered to Socius an initial warrant (the "Initial Warrant") obligating Socius to purchase shares of Common Stock with an aggregate purchase price of $800,000, which shall be automatically exercisable on the date a registration statement for the resale of all shares of Common Stock issuable pursuant to the Series C Purchase Agreement is declared effective (which effectiveness occurred on April 13, 2011), with delivery of such shares made to Socius on the trading day immediately following the exercise date at a per-share price equal to the closing bid price of the Common Stock on the delivery date, and (iii) Socius became obligated to purchase additional shares of Common Stock equal in aggregate dollar amount to $4,000,000 (such shares of Common Stock the "Initial Investment Shares"), with delivery of such shares made to Socius on the trading day immediately following the date the registration statement is declared effective at a price per share equal to the closing bid price of Common Stock on the delivery date.

- The Company agreed to pay to Socius a commitment fee of $1,250,000 (the "Commitment Fee"), at the earlier of the closing of the first Series C Tranche or the six month anniversary of the Series C Effective Date. This Commitment Fee is payable solely at the Company's election, in cash or in the alternative, in shares of common stock valued at 88% of the volume weighted average price of the Company's Common Stock on the five trading days preceding the payment date. If the Company elects to pay the Commitment Fee in shares of Common Stock, no cash payment would be due as the issuance of shares would satisfy the Commitment Fee obligation in full.

- The Company agreed to use its best efforts to file within 60 days of the Series C Effective Date, and cause to become effective as soon as possible thereafter, a registration statement with the Securities and Exchange Commission for the resale of all shares of Common Stock issuable pursuant to the Series C Purchase Agreement, including the shares of Common Stock underlying the Socius Warrant, shares of the Common Stock issuable upon exercise of the Initial Warrant, shares of Common Stock issuable as Initial Investment Shares, shares of Common Stock issuable as Additional Investment Shares, and shares of Common Stock issuable in payment of the Commitment Fee.

- In the event that Socius does not comply with its obligations under the Series C Purchase Agreement (including its obligations to exercise the Socius Warrant), the Series C Purchase Agreement provides that, in addition to being entitled to exercise all rights provided therein or granted by law, the Company would be entitled to seek specific performance by Socius under the Series C Purchase Agreement and the Socius Warrant.

On December 30, 2010, in accordance with the purchase agreement, the Company filed a certificate of designations for the Series C preferred stock with the Secretary of State of the state of Delaware. As previously reported, pursuant to the Certificate of Designations, the preferred shares shall, with respect to dividend, rights upon liquidation, winding-up or dissolution, rank: (i) senior to the Company's common stock, and any other class or series of preferred stock of the Company (collectively, with any warrants, rights, calls or options exercisable for or convertible into such preferred stock, the "Junior Securities"); provided, however, the Series A-1 convertible preferred stock and Series B preferred stock (together, the "Senior Securities") shall rank senior in right of redemption, liquidation, and dividends; and (ii) junior to all existing and future indebtedness of the Company.

On June 16, 2011, the Company delivered the second Series C Tranche notice to Socius for delivery of a total of 400 shares under the Series C preferred stock for funding in the amount of $4,000,000.

Dividends

Commencing on the date of the issuance of any shares of Series C preferred stock, holders of Series C preferred stock will be entitled to receive dividends on each outstanding share of Series C preferred stock, which will accrue in shares of Series C preferred stock at a rate equal to 6% per annum from the issuance date compounded annually. Accrued dividends will be payable upon redemption of the Series C preferred stock.

Accrued dividends were $128,219 and $0 at June 30, 2011 and December 31, 2010, respectively.

Redemption Rights

Upon or after the fourth anniversary of the initial issuance date, the Company will have the right, at the Company's option, to redeem all or a portion of the shares of the Series C preferred stock, at a price per share equal to 100% of the Series C liquidation value. The preferred stock may be redeemed at the Company's option, commencing 4 years from the issuance date at a price per share of (a) $10,000 per share plus accrued but unpaid dividends (the "Series C Liquidation Value"), or, at a price per share of : (x) 136% of the Series C Liquidation Value if redeemed prior to the first anniversary of the initial issuance date, (y) 127% of the Series C Liquidation Value if redeemed on or after the second anniversary but prior to the third anniversary of the initial issuance date, and (z) 109% of the Series C Liquidation Value if redeemed on or after the third anniversary but prior to the fourth anniversary of the initial issuance date.

Termination and Liquidation Rights

If the Company determines to liquidate, dissolve or wind-up its business, it must redeem the Series C preferred stock at the prices set forth above. Upon any liquidation, dissolution or winding up of the Company, the Holders of Series C preferred stock shall be first entitled to be paid out of the assets of the Company available for distribution to its stockholders an amount with respect to each share of Series C preferred stock equal to $10,000, plus any accrued and unpaid dividends.

ADVANCED CELL TECHNOLOGY, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Related Secured Promissory Notes Receivable:
In accordance with the terms of the Series C preferred stock agreement, on April 14, 2011 and associated with the first Series C Tranche notice which occurred on December 31, 2010, Socius issued to the Company a secured promissory note of $4,000,000 for 22,222,222 shares of common stock and issued a secured promissory note of $800,000 for the exercise of warrants for 4,444,444 shares of common stock. On June 16, 2011 and associated with the second Series C Tranche notice, Socius issued to the Company a secured promissory note of $4,000,000 for 21,390,374 shares of common stock and issued a secured promissory note of $800,000 for the exercise of warrants for 4,278,075 shares of common stock. Interest on the notes accrues at 2% per year, compounding annually if the interest remains unpaid at the end of each year. The note is secured by freely tradable marketable securities belonging to Socius. Each promissory note matures on the fourth anniversary of its issuance.

In the event the Company redeems all or a portion of any shares of Series C preferred stock held by Socius, the Company will be permitted to offset the full amount of such proceeds against amounts outstanding under the promissory notes. Accordingly, the Company included the discounted value of the secured promissory notes as a separate component of stockholders' deficit at June 30, 2011.

The value of the secured promissory notes in the accompanying consolidated balance sheet was $8,292,485, net of discounts of $1,328,036 plus accrued interest of $20,521 at June 30, 2011, reflecting a face value of $9,600,000. The Company determined that a 6% discount is appropriate, in order to consistently reflect the Company's cost of borrowing under the terms of the underlying Series C preferred stock that permits offset. The Company recorded an initial discount on the promissory notes in the amount of $1,369,079 during the six months ended June 30, 2011. The Company accretes interest at 6% over the respective four-year terms of the promissory notes.

During the three and six months ended June 30, 2011, the Company accreted interest on the promissory note in the amount of $61,563 and $61,563, respectively, and during the three and six months ended June 30, 2010, the Company accreted interest on the promissory note in the amount of $0 and $0, respectively, which was recorded in accumulated deficit during the periods then ended. The Company recorded dividends on its Series C preferred stock during the six months ended June 30, 2011 of $69,041 and $128,219, respectively, and during the six months ended June 30, 2010 of $0 and $0, respectively. The accrued dividends are offset by the accretion of the note receivable discount.

The Company has classified the Series C redeemable preferred stock in the equity section in its consolidated balance sheets. As of June 30, 2011 and December 31, 2010, 800 and 400 shares of Series C preferred stock were outstanding, respectively.

10. WARRANT SUMMARY

Warrant Activity

A summary of warrant activity for the six months ended June 30, 2011 is presented below:

		Weighted		
		Average	Weighted Average	Aggregate
	Number of	Exercise	Remaining Contractual	Intrinsic Value
	Warrants	Price $	Life (in years)	(000) $

Outstanding, December 31, 2010	134,931,242	0.12	3.54	
Granted	14,538,980	0.22		
Exercised	(53,539,004)	0.09		
Forfeited/Canceled	(620,000)	1.78		
Outstanding, June 30, 2010 (unaudited)	95,311,218	0.12	3.13	7,921
Exercisable, June 30, 2010 (unaudited)	95,311,218	0.12	3.13	7,921

The aggregate intrinsic value in the table above is before applicable income taxes and is calculated based on the difference between the exercise price of the warrants and the quoted price of the Company's common stock as of the reporting date.

ADVANCED CELL TECHNOLOGY, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The following table summarizes information about warrants outstanding and exercisable at June 30, 2011:

Warrants Outstanding and Exercisable			
Exercise Price $	Number of Shares	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price $
.10 - .11	89,211,415	3.07	0.10
.20 - .30	1,630,000	4.51	0.25
.38-.39	1,330,636	6.08	0.39
.40-.45	2,065,000	2.57	0.42
.70-.85	1,001,250	3.69	0.73
2.20	72,917	0.13	2.20
	95,311,218		

During the six months ended June 30, 2011, the Company issued 3,413,016 warrants to consultants. The warrants were 3 and 5 year warrants with an exercise price ranging from $0.10 to $0.70. The fair value of the warrants at the date of issuance was approximately $660,000 which was recorded as consulting expense in the accompanying consolidated financial statements. The Company used the Black-Scholes option pricing model to value the warrants using the following assumptions: (1) dividend yield of 0%; (2) expected volatility of 165-170%, (3) risk-free interest rate of 0.81- 2.01%, and (4) expected life of 3-5 years.

During the six months ended June 30, 2011, the Company extended the expiration date of 2,403,445 warrants that had expired on December 31, 2010. The fair value of the warrants at the extension date was approximately $470,000 which was recorded as financing costs in the accompanying consolidated statement of operations. The Company used the Black-Scholes option pricing model to value the warrants using the following assumptions: (1) dividend yield of 0%; (2) expected volatility of 170%, (3) risk-free interest rate of 1.02%, and (4) expected life of 4 years.

During the six months ended June 30, 2011, there were 29,957,548 warrants exercised for $2,950,940 in cash and 14,858,937 warrants exercised using the cashless exercise provision.

11. STOCKHOLDERS' EQUITY TRANSACTIONS

During the six months ended June 30, 2011, the Company issued 1,519,077 shares related to the convertible debenture redemptions for the principal amount of $150,390.

During the six months ended June 30, 2011, the Company issued 636,126 shares for the exercise of 1,500,000 non-employee options and relieved the derivative liability for $160,161.

During the six months ended June 30, 2011, the Company issued 750,000 shares for the exercise of 750,000 employee options.

On January 1, 2011, the Company issued 1,630,000 shares of common stock in connection with consulting agreements. The agreements are for one year unless terminated by either party. The Company recognized consulting expense of $342,300 related to these agreements during the six months ended June 30, 2011.

On January 11, 2011, per Gary Rabin's employment agreement, the Company issued 5,000,000 shares of restricted common stock. The Company valued the shares at $0.14 per share for a value of $700,000. The Company will amortize this expense over the earlier of one year or the naming of a new CEO. During the three and six months ended June 30, 2011, the Company recorded $175,000 and $350,000 as payroll expense in the accompanying consolidated statement of operations.

On February 11, 2011 and June 15, 2011, the Company entered into an agreement with Gemini Master Fund ("Gemini"), whereby, the Company issued 20,000,000 shares and 1,987,829 shares, respectively to settle errors involving warrant issuances to Gemini. The Company relieved the warrant liability and recorded a financing cost of $2,401,282 in the accompanying consolidated statements of operations.

On February 14, 2011, the Company issued Robert Lanza 12,421,101 shares of common stock. The Company had granted these shares to Mr. Lanza during 2010 and had recorded the compensation expense and an accrued liability for $1,117,899 as of December 31, 2010. The Company relieved the accrued liability with the issuance of the shares.

ADVANCED CELL TECHNOLOGY, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

On February 15, 2011, the Company issued 3,222,786 shares of common stock valued at $654,000 to Optimus CG II Ltd, which was related to the true-up of shares issued on conversion of warrants. The Company has recorded the expense as a finance cost and the accrued liability in the 2010 consolidated financial statements. The Company relieved the accrued liability with the issuance of the shares.

On February 15, 2011, the Company issued Transition Holdings, Ltd. 7,413,000 shares of common stock for full settlement of the licensing agreements between Transition Holdings, Ltd. and the Company. The Company had recorded the value of the shares in the December 31, 2010 consolidated financial statements as advances payable. The Company relieved the advances payable with the issuance of the shares.

On February 16, 2011, the Company issued a board member 406,324 shares of common stock valued at $73,138 as compensation for board services.

On April 13, 2011, the Company issued 26,666,666 shares of common shares in exchange for promissory notes of $4,000,000 and $800,000 as discussed in Note 9.

On May 16, 2011, the Company issued 751,406 shares of common stock valued at $133,600 to University of Massachusetts for licensing rights.

On June 16, 2011, the Company issued 25,668,449 shares of common stock in exchange for promissory notes of $4,000,000 and $800,000 as discussed in Note 9.

On June 30, 2011, the Company issued 7,562,008 shares of common stock related to the $1,250,000 commitment fee for the Series C first and second tranche as discussed in Note 9.

During the six months ended June 30, 2011, the Company issued 3,252,066 shares of common stock for the cashless exercise of 14,208,937 warrants. The warrants were executed in accordance with their terms.

During the six months ended June 30, 2011, the Company received $2,950,940 from the cash exercise of 29,957,548 warrants.

12. STOCK-BASED COMPENSATION

Stock Plans

The following table summarizes the Company's stock incentive plans as of June 30, 2011:

Stock Plan	Options/Shares Issued	Options Outstanding	Options/Shares Available For Grant
2004 Stock Plan	2,492,000	70,000	370,000
2004 Stock Plan II	1,301,161	1,071,161	230,000
2005 Stock Plan	57,952,983	53,442,457	122,563,995
	61,746,144	54,583,618	123,163,995

Stock Option Activity

A summary of option activity for the years ended June 30, 2011 is presented below:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (000)
Outstanding, December 31, 2010	48,376,119	$ 0.23	7.56	$ 3,825
Granted	8,457,499	-		
Exercised	(2,250,000)	-		
Forfeited/canceled	-	-		
Outstanding, June 30, 2011	54,583,618	$ 0.23	7.73	$ 2,896
Vested and expected to vest at June 30, 2011	51,735,623	$ 0.24	7.65	$ 2,751
Exercisable, June 30, 2011	32,675,967	$ 0.29	6.80	$ 1,785

ADVANCED CELL TECHNOLOGY, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The aggregate intrinsic value in the table above is before applicable income taxes and is calculated based on the difference between the exercise price of the options and the quoted price of the Company's common stock as of the reporting date.

The following table summarizes information about stock options outstanding and exercisable at June 30, 2011.

	Options Outstanding			Options Exercisable		
Exercise Price	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Life (Years)	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Life (Years)
$ 0.05	70,000	$ 0.05	3.12	70,000	$ 0.05	3.12
0.09	12,390,000	0.09	8.61	4,259,064	0.09	8.61
0.10 - 0.14	20,501,273	0.11	8.24	14,897,106	0.10	7.80
0.19 - 0.21	14,269,168	0.20	8.37	6,096,618	0.21	6.91
0.25	1,071,161	0.25	3.51	1,071,161	0.25	3.51
0.85	5,604,099	0.85	3.59	5,604,100	0.85	3.59
1.35 - $ 2.48	677,917	$ 2.04	4.36	677,917	$ 2.04	4.36
	54,583,618			32,675,967		

The assumptions used in calculating the fair value of options granted using the Black-Scholes option- pricing model for options granted during the six months ended June 30, 2011 are as follows:

	June 30, 2011	June 30, 2010
Risk-free interest rate	1.55 %	2.29-3.84%
Expected life of the options	5.27 years	5 – 10 years
Expected volatility	165 %	175-180 %
Expected dividend yield	0 %	0 %
Expected forfeitures	13 %	13 %

13. COMMITMENTS AND CONTINGENCIES

The Company has received a copy of a Creditor's Claim (the "Claim") in the amount of $27,909,706 made with the Estate of William Caldwell ("Decedent"), who at the time of his death was the Chief Executive Officer and Chairman of the Board of Directors of the Company. The Claim states that Decedent's liability arises under a cause of action that the Claimant intends to file in Federal court against the Company for violations of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), including Section 10(b) of the Exchange Act and the rules promulgated thereunder. As of the date of the filing of this report, the Company is not aware of any action commenced against it by the Claimant.

In the Claim, the Claimant alleges that in September 2005, he entered into a Settlement Agreement with the Company pursuant to which he received a warrant to purchase shares of the Company's Common Stock. In the Claim, the Claimant makes several allegations against the Company including that in reliance on misinformation provided to him by the Decedent he exercised his warrant to purchase the Company's Common Stock at an inflated price and received fewer shares than he was owed by the Company under the terms of his warrant, that the Company breached the Claimant's warrant by not timely issuing stock after the warrant was exercised, and that the Company failed to provide proper notice of certain events that allegedly triggered the Claimant's purported rights to additional shares under the warrant. Claimant previously brought an action against the Company, in October 2007, with respect to a dispute over the interpretation of the anti-dilution provisions of the warrant but withdrew this action the day before the trial date.

ADVANCED CELL TECHNOLOGY, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The Company does not believe that the Claimant's claims are valid and if the Claimant does commence an action against the Company, it will defend itself vigorously.

Pursuant to the employment agreement between the Company and the Decedent, the Company has to indemnify and hold Decedent harmless from costs, expenses or liability arising out of or relating to any acts or decisions made by Decedent in the course of his employment to the same extent that the Company indemnifies and holds harmless other officers and directors of the company in accordance with the Company's established policies. Our directors and officers are indemnified by our bylaws against amounts actually and necessarily incurred by them in connection with the defense of any action, suit or proceeding in which they are a party by reason of being or having been directors or officers of the Company. Our certificate of incorporation provides that none of our directors or officers shall be personally liable for damages for breach of any fiduciary duty as a director or officer involving any act or omission of any such director or officer. Insofar as indemnification for liabilities arising under the Securities Act of 1933, as amended, may be permitted to such directors, officers and controlling persons pursuant to the foregoing provisions, or otherwise, the Company has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable.

In the event that a claim for indemnification against such liabilities, other than the payment by the Company of expenses incurred or paid by such director, officer or controlling person in the successful defense of any action, suit or proceeding, is asserted by such director, officer or controlling person in connection with the securities being registered, the Company will, unless in the opinion of counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The Company has entered into employment contracts with certain executives and research personnel. The contracts provide for salaries, bonuses and stock option grants, along with other employee benefits. The employment contracts generally have no set term.

14. SUBSEQUENT EVENTS

On July 15, 2011, the Company and CHA Biotech entered into a binding term sheet, with the expectation of entering into a definitive agreement by September 30, 2011, in which the joint venture was realigned around both product development rights and research responsibilities. Under the terms of the binding term sheet, SCRMI exclusively licensed the rights to the Hemangioblast Program to the Company for United States and Canada and expanded the jurisdictional scope of the license to CHA Biotech to include Japan (in addition to South Korea, which was already exclusively licensed to CHA Biotech). As part of the agreement, the scientists at SCRMI involved in the Hemangioblast Program were transferred to the Company, and SCRMI discontinued its research activity and became solely a licensing entity. The Company is obligated to meet a minimal research spending requirement in order to maintain its exclusive license, up to the point of filing an investigational new drug for a therapeutic product. Intellectual property rights created by the Company in the course of our research are subject to a non-exclusive license to CHA Biotech for Japan and South Korea, and to SCRMI to be sub-licensable under certain circumstances for countries other than the United States, Canada, Japan and South Korea.

The Company has evaluated all subsequent events that occurred up to the time of the Company's issuance of its financial statements.

23

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q and the materials incorporated herein by reference contain forward-looking statements that involve risks and uncertainties. We use words such as “may,” “assumes,” “forecasts,” “positions,” “predicts,” “strategy,” “will,” “expects,” “estimates,” “anticipates,” “believes,” “projects,” “intends,” “plans,” “budgets,” “potential,” “con variations thereof, and other statements contained in this quarterly report, and the exhibits hereto, regarding matters that are not historical facts and are forward-looking statements. Because these statements involve risks and uncertainties, as well as certain assumptions, actual results may differ materially from those expressed or implied by such forward-looking statements. Factors that could cause actual results to differ materially include, but are not limited to risks inherent in: our early stage of development, including a lack of operating history, lack of profitable operations and the need for additional capital; the development and commercialization of largely novel and unproven technologies and products; our ability to protect, maintain and defend our intellectual property rights; uncertainties regarding our ability to obtain the capital resources needed to continue research and development operations and to conduct research, preclinical development and clinical trials necessary for regulatory approvals; uncertainty regarding the outcome of clinical trials and our overall ability to compete effectively in a highly complex, rapidly developing, capital intensive and competitive industry. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date that they are made. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Forward-looking statements include our plans and objectives for future operations, including plans and objectives relating to our products and our future economic performance. Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions, future business decisions, and the time and money required to successfully complete development and commercialization of our technologies, all of which are difficult or impossible to predict accurately and many of which are beyond our control. Although we believe that the assumptions underlying the forward-looking statements contained herein are reasonable, any of those assumptions could prove inaccurate and, therefore, we cannot assure you that the results contemplated in any of the forward-looking statements contained herein will be realized. Based on the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of any such statement should not be regarded as a representation by us or any other person that our objectives or plans will be achieved.

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

The following discussion should be read in conjunction with the financial statements and notes thereto included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

We are a biotechnology company focused on developing and commercializing human stem cell technology in the emerging fields of regenerative medicine and stem cell therapy. Principal activities to date have included obtaining financing, securing operating facilities, and conducting research and development. We have no therapeutic products currently available for sale and do not expect to have any therapeutic products commercially available for sale for a period of years, if at all. These factors indicate that our ability to continue research and development activities is dependent upon the ability of management to obtain additional financing as required.

CRITICAL ACCOUNTING POLICIES

Deferred Issuance Cost— Payments, either in cash or share-based payments, made in connection with the sale of debentures are recorded as deferred debt issuance costs and amortized using the effective interest method over the

lives of the related debentures. The weighted average amortization period for deferred debt issuance costs is 48 months.

Fair Value Measurements — For certain financial instruments, including accounts receivable, accounts payable, accrued expenses, interest payable and notes payable, the carrying amounts approximate fair value due to their relatively short maturities.

On January 1, 2008, we adopted FASB ASC 820-10, “Fair Value Measurements and Disclosures.” FASB ASC 820-10 defines fair value, and establishes a three-level valuation hierarchy for disclosures of fair value measurement that enhances disclosure requirements for fair value measures. The carrying amounts reported in the consolidated balance sheets for receivables and current liabilities each qualify as financial instruments and are a reasonable estimate of their fair values because of the short period of time between the origination of such instruments and their expected realization and their current market rate of interest. The three levels of valuation hierarchy are defined as follows:

- Level 1 inputs to the valuation methodology are quoted prices for identical assets or liabilities in active markets.

- Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

- Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Management analyzes all financial instruments with features of both liabilities and equity under ASC 480, "Distinguishing Liabilities From Equity" and ASC 815, "Derivatives and Hedging." Derivative liabilities are adjusted to reflect fair value at each period end, with any increase or decrease in the fair value being recorded in results of operations as adjustments to fair value of derivatives. The effects of interactions between embedded derivatives are calculated and accounted for in arriving at the overall fair value of the financial instruments. In addition, the fair values of freestanding derivative instruments such as warrant and option derivatives are valued using the Black-Scholes model.

Revenue Recognition— Our revenue is generated from license and research agreements with collaborators. Licensing revenue is recognized on a straight-line basis over the shorter of the life of the license or the estimated economic life of the patents related to the license. Deferred revenue represents the portion of the license and other payments received that has not been earned. Costs associated with the license revenue are deferred and recognized over the same term as the revenue. Reimbursements of research expense pursuant to grants are recorded in the period during which collection of the reimbursement becomes assured, because the reimbursements are subject to approval.

Stock Based Compensation— We record stock-based compensation in accordance with ASC 718, "Compensation – Stock Compensation." ASC 718 requires companies to measure compensation cost for stock-based employee compensation at fair value at the grant date and recognize the expense over the employee's requisite service period. We recognize in the statement of operations the grant-date fair value of stock options and other equity-based compensation issued to employees and non-employees.

RESULTS OF OPERATIONS

Comparison of Three Months Ended June 30, 2011 and 2010

	Three Months Ended June 30, 2011		Three Months Ended June 30, 2010	
	Amount	% of Revenue	Amount	% of Revenue
Revenue	$ 153,688	100.0 %	$ 205,158	100.0 %
Cost of revenue	281,500	183.2 %	66,650	32.5 %
Gross profit	(127,812)	-83.2 %	138,508	67.5 %
Research and development expenses	1,532,271	997.0 %	1,484,141	723.4 %
General and administrative expenses	1,951,728	1269.9 %	1,349,219	657.6 %
Change in estimate of accrued liabilities	-	0.0 %	(1,569,966)	-765.2 %
Loss on settlement of litigation	-	0.0 %	-	0.0 %
Non-operating income (expense)	(1,208,338)	-786.2 %	4,055,285	1976.7 %
Net loss	$ (4,820,149)	-3136.3 %	$ 2,930,399	1428.4 %

Revenue

Revenue for the three months ended June 30, 2011 and 2010 was $153,688 and $205,158, respectively, which represented a decrease of $51,470, or 25%. These amounts relate primarily to license fees and royalties collected that are being amortized over the period of the license granted, and are therefore typically consistent between periods. The

decrease in revenue during the three months ended June 30, 2011 was due to licenses being terminated during the fourth quarter 2010.

Research and Development Expenses and Grant Reimbursements

R&D expenses for the three months ended June 30, 2011 and 2010 were $1,532,271 and $1,484,141, respectively, an increase of $48,130, or 3%. R&D consists mainly of facility costs, payroll and payroll related expenses, research supplies and costs incurred in connection with specific research grants, and for scientific research.

Our research and development expenses consist primarily of costs associated with basic and pre-clinical research exclusively in the field of human stem cell therapies and regenerative medicine, with focus on development of our technologies in cellular reprogramming, reduced complexity applications, and stem cell differentiation. These expenses represent both pre-clinical development costs and costs associated with non-clinical support activities such as quality control and regulatory processes. The cost of our research and development personnel is the most significant category of expense; however, we also incur expenses with third parties, including license agreements, sponsored research programs and consulting expenses.

We do not segregate research and development costs by project because our research is focused exclusively on human stem cell therapies as a unitary field of study. Although we have three principal areas of focus for our research, these areas are completely intertwined and have not yet matured to the point where they are separate and distinct projects. The intellectual property, scientists and other resources dedicated to these efforts are not separately allocated to individual projects, but rather are conducting our research on an integrated basis.

We expect that research and development expenses will increase in the foreseeable future as we add personnel, expand our pre-clinical research, begin clinical trial activities, and increase our regulatory compliance capabilities. The amount of these increases is difficult to predict due to the uncertainty inherent in the timing and extent of progress in our research programs, and initiation of clinical trials. In addition, the results from our basic research and pre-clinical trials, as well as the results of trials of similar therapeutics under development by others, will influence the number, size and duration of planned and unplanned trials. As our research efforts mature, we will continue to review the direction of our research based on an assessment of the value of possible commercial applications emerging from these efforts. Based on this continuing review, we expect to establish discrete research programs and evaluate the cost and potential for cash inflows from commercializing products, partnering with others in the biotechnology or pharmaceutical industry, or licensing the technologies associated with these programs to third parties.

We believe that it is not possible at this stage to provide a meaningful estimate of the total cost to complete our ongoing projects and bring any proposed products to market. The use of human embryonic stem cells as a therapy is an emerging area of medicine, and it is not known what clinical trials will be required by the FDA in order to gain marketing approval. Costs to complete could vary substantially depending upon the projects selected for development, the number of clinical trials required and the number of patients needed for each study. It is possible that the completion of these studies could be delayed for a variety of reasons, including difficulties in enrolling patients, delays in manufacturing, incomplete or inconsistent data from the pre-clinical or clinical trials, and difficulties evaluating the trial results. Any delay in completion of a trial would increase the cost of that trial, which would harm our results of operations. Due to these uncertainties, we cannot reasonably estimate the size, nature nor timing of the costs to complete, or the amount or timing of the net cash inflows from our current activities. Until we obtain further relevant pre-clinical and clinical data, we will not be able to estimate our future expenses related to these programs or when, if ever, and to what extent we will receive cash inflows from resulting products.

General and Administrative Expenses

General and administrative expenses for the three months ended June 30, 2011 and 2010 were $1,951,728 and $1,349,219, respectively, an increase of $602,509, or 45%. The increase was because of an increase in consulting and legal fees.

Non-operating income (expense)

Non-operating income (expense) for the three months ended June 30, 2011 and 2010 was $(1,208,338) and 4,055,285, respectively, which represents an increase in expenses of $5,263,623 or 130%. The change in non-operating income (expense) during the three months ended June 30, 2011, compared to that of 2010, relates primarily to the change in fair value of derivatives. During the three months ended June 30, 2011, the fair value of the derivative liabilities decreased by $701,198 compared to an increase of $6,942,005 for the three months ended June 30, 2010. During the three months ended June 30, 2011, the Company incurred approximately $245,734 in financing costs associated with the Gemini Master Fund warrant settlement. Interest expense was $272,717 for the three months ended June 30, 2011 compared to $2,429,519 for the three months ended June 30, 2010. The decrease in interest expense is due to the decrease in the overall debt.

Net Income (Loss)

Net income (loss) for the three months ended June 30, 2011 and 2010 was $(4,820,149) and $2,930,399, respectively. The change in net income (loss) in each period is primarily related to the changes in the fair value of the derivative liabilities.

Comparison of Six months ended June 30, 2011 and 2010

	Six Months Ended June 30, 2011		Six Months Ended June 30, 2010	
	Amount	% of Revenue	Amount	% of Revenue
Revenue	$ 307,376	100.0 %	$ 410,316	100.0 %
Cost of revenue	304,400	99.0 %	133,300	32.5 %
Gross profit	2,976	1.0 %	277,016	67.5 %
Research and development expenses	3,007,044	978.3 %	5,379,722	1311.1 %
General and administrative expenses	5,149,254	1675.2 %	12,567,462	3062.9 %
Change in estimate of accrued liabilities	-	0.0 %	(1,569,966)	-382.6 %
Loss on settlement of litigation	294,144	95.7 %	-	0.0 %
Non-operating income (expense)	285,280	92.8 %	1,180,968	287.8 %
Net loss	$ (8,162,186)	-2655.4 %	$ (14,919,234)	-3636.0 %

Revenue

Revenue for the six months ended June 30, 2011 and 2010 was $307,376 and $410,316, respectively, which represented a decrease of $102,940, or 25%. These amounts relate primarily to license fees and royalties collected that are being amortized over the period of the license granted, and are therefore typically consistent between periods. The decrease in revenue during the six months ended June 30, 2011 was due to licenses being terminated during the fourth quarter 2010.

Research and Development Expenses and Grant Reimbursements

R&D expenses for the six months ended June 30, 2011 and 2010 were $3,007,044 and $5,379,722, respectively, a decrease of $2,372,678, or 44%. R&D consists mainly of facility costs, payroll and payroll related expenses, research supplies and costs incurred in connection with specific research grants, and for scientific research. The decrease in R&D expenditures during the six months ended June 30, 2011 as compared to the same period in 2010 is because during the six months ended June 30, 2010, we expensed approximately $2,700,000 related to 30,192,203 shares of common stock that were issued or expected to be issued to our chief scientific officer.

Our research and development expenses consist primarily of costs associated with basic and pre-clinical research exclusively in the field of human stem cell therapies and regenerative medicine, with focus on development of our technologies in cellular reprogramming, reduced complexity applications, and stem cell differentiation. These expenses represent both pre-clinical development costs and costs associated with non-clinical support activities such as quality control and regulatory processes. The cost of our research and development personnel is the most significant category of expense; however, we also incur expenses with third parties, including license agreements, sponsored research programs and consulting expenses.

We do not segregate research and development costs by project because our research is focused exclusively on human stem cell therapies as a unitary field of study. Although we have three principal areas of focus for our research, these areas are completely intertwined and have not yet matured to the point where they are separate and distinct projects. The intellectual property, scientists and other resources dedicated to these efforts are not separately allocated to individual projects, but rather are conducting our research on an integrated basis.

We expect that research and development expenses will increase in the foreseeable future as we add personnel, expand our pre-clinical research, begin clinical trial activities, and increase our regulatory compliance capabilities. The amount of these increases is difficult to predict due to the uncertainty inherent in the timing and extent of progress in our research programs, and initiation of clinical trials. In addition, the results from our basic research and pre-clinical trials, as well as the results of trials of similar therapeutics under development by others, will influence the number, size and duration of planned and unplanned trials. As our research efforts mature, we will continue to review the direction of our research based on an assessment of the value of possible commercial applications emerging from these efforts. Based on this continuing review, we expect to establish discrete research programs and evaluate the cost and potential for cash inflows from commercializing products, partnering with others in the biotechnology or pharmaceutical industry, or licensing the technologies associated with these programs to third parties.

We believe that it is not possible at this stage to provide a meaningful estimate of the total cost to complete our ongoing projects and bring any proposed products to market. The use of human embryonic stem cells as a therapy is an emerging area of medicine, and it is not known what clinical trials will be required by the FDA in order to gain marketing approval. Costs to complete could vary substantially depending upon the projects selected for development, the number of clinical trials required and the number of patients needed for each study. It is possible that the completion of these studies could be delayed for a variety of reasons, including difficulties in enrolling patients, delays in manufacturing, incomplete or inconsistent data from the pre-clinical or clinical trials, and difficulties

evaluating the trial results. Any delay in completion of a trial would increase the cost of that trial, which would harm our results of operations. Due to these uncertainties, we cannot reasonably estimate the size, nature nor timing of the costs to complete, or the amount or timing of the net cash inflows from our current activities. Until we obtain further relevant pre-clinical and clinical data, we will not be able to estimate our future expenses related to these programs or when, if ever, and to what extent we will receive cash inflows from resulting products.

General and Administrative Expenses

General and administrative expenses for the six months ended June 30, 2011 and 2010 were $5,149,254 and $12,567,462, respectively, a decrease of $7,418,208, or 59%. The 2011 decrease was because during the six months ended June 30, 2010, we expensed approximately $8,000,000 related to 89,280,595 shares of common stock that were issued or expected to be issued to our former chief executive officer per his employment agreement.

Loss on settlement of litigation

Loss on settlement of litigation for the six months ended June 30, 2011 and 2010 were $294,144 and $0, respectively, an increase of 294,144 or 100%. The increase was due to the settlement with Transition Holdings, Inc. We had accrued $3,205,856 as of December 31, 2010 and then expensed the remaining $294,144 settlement amount during the six months ended June 30, 2011.

Non-operating income (expense)

Non-operating income (expense) for the six months ended June 30, 2011 and 2010 was $285,280 and 1,180,968, respectively, which represents an increase in expenses of $895,688 or 76%. The change in non-operating income (expense) during the six months ended June 30, 2011, compared to that of 2010, relates primarily to the change in fair value of derivatives. During the six months ended June 30, 2011, the fair value of the derivative liabilities increased by $4,088,221 compared to an increase of $8,526,709 for the six months ended June 30, 2010. During the six months ended June 30, 2011, the Company incurred approximately $2,400,000 in financing costs associated with the Gemini Master Fund warrant settlement. Interest expense was $953,881 for the six months ended June 30, 2011 compared to $5,782,293 for the six months ended June 30, 2010. The decrease in interest expense is due to the decrease in the overall debt.

Net Income (Loss)

Net loss for the six months ended June 30, 2011 and 2010 was $8,162,186 and $14,919,234, respectively. The change in net loss in each period is primarily related to the decrease in payroll expenses related to the shares issued to our chief executive officer and our chief scientific officer and the changes in the fair value of the derivative liabilities.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

The following table sets forth a summary of our cash flows for the periods indicated below:

	Six Months Ended June 30,	
	2011	2010
Net cash used in operating activities	$ (6,689,195)	$ (4,834,456)
Net cash used in investing activities	(36,830)	(186,495)
Net cash provided by financing activities	6,950,940	7,153,865
Net increase (decrease) in cash and cash equivalents	224,915	2,132,914
Cash and cash equivalents at the end of the period	$ 16,114,324	$ 4,671,752

Operating Activities

Our net cash used in operating activities during the six months ended June 30, 2011 and 2010 was $6,689,195 and $4,834,456, respectively. Cash used in operating activities increased during the current period primarily due to an increase in operating expenditures.

Cash Flows from Investing

Cash used in investing activities during the six months ended June 30, 2011 and 2010 was $36,830 and $186,495, respectively. Our cash used in investing activities during the six months ended June 30, 2011 was attributed to the purchase of fixed assets for approximately $37,000.

Cash Flows from Financing Activities

Cash flows provided by financing activities during the six months ended June 30, 2011 and 2010 was $6,950,940 and $7,153,865, respectively. During the six months ended June 30, 2011, we received $4,000,000 from the issuance of 400 shares of Series C Preferred stock and $2,950,940 from the exercise of warrants.

We plan to fund our operations for the foreseeable future from the following sources:

- As of June 30, 2011, we have approximately $16,114,324 in cash.
- As of June 30, 2011, approximately $1,580,000 is available to us upon the sale of our Series A-1 preferred stock for a maximum placement commitment of $5 million.
- As of June 30, 2011, $17,000,000 is available to us upon the sale of our Series C preferred stock for a maximum placement commitment of $25,000,000.
- We continue to repay our debt financings in shares of common stock, enabling us to use our cash resources to fund our operations.

On a long term basis, we have no expectation of generating any meaningful revenues from our product candidates for a substantial period of time and will rely on raising funds in capital transactions to finance our research and development programs. Our future cash requirements will depend on many factors, including the pace and scope of our research and development programs, the costs involved in filing, prosecuting and enforcing patents, and other costs associated with commercializing our potential products. We intend to seek additional funding primarily through public or private financing transactions, and, to a lesser degree, new licensing or scientific collaborations, grants from governmental or other institutions, and other related transactions. If we are unable to raise additional funds, we will be forced to either scale back our business efforts or curtail our business activities entirely. We anticipate that our available cash and expected income will be sufficient to finance most of our current activities for the foreseeable future. We cannot assure you that public or private financing or grants will be available on acceptable terms, if at all. Several factors will affect our ability to raise additional funding, including, but not limited to, the volatility of our common stock.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our exposure to market risk is limited primarily to interest income sensitivity, which is affected by changes in the general level of U.S. interest rates, particularly because a significant portion of our investments are in short-term debt securities issued by the U.S. government and institutional money market funds. The primary objective of our investment activities is to preserve principal. Due to the nature of our marketable securities, we believe that we are not exposed to any material market risk. We do not have any derivative financial instruments or foreign currency instruments. If interest rates had varied by 10% in the quarter ended June 30, 2011, it would not have had a material effect on our results of operations or cash flows for that period.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

We maintain disclosure controls and procedures designed to ensure that information required to be disclosed in the reports we file pursuant to the Exchange Act are recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission, and that such information is accumulated and communicated to our Chief Executive Officer ("CEO"), who also serves as the Company's Principal Financial Officer ("PFO"), to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can only provide a reasonable assurance of achieving the desired control objectives, and in reaching a reasonable level of assurance, management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Management designed the disclosure controls and procedures to provide reasonable assurance of achieving the desired control objectives.

We carried out an evaluation, under the supervision and with the participation of our management, including our CEO and PFO, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report. Based upon that evaluation, the Chief Executive Officer and Principal Financial Officer concluded that the Company's disclosure controls and procedures are effective.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal controls over financial reporting (as such term is defined in Rule 13a-15(f) and 15d-15(f) under the Securities Exchange Act) during the quarter ended June 30, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors disclosed in the Company's Form 10-K for the year ended December 31, 2010 filed with the Securities and Exchange Commission on March 17, 2011.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

During the six months ended June 30, 2011, we issued 3,252,066 shares of common stock for the cashless exercise of 14,208,937 warrants.

During the six months ended June 30, 2011, we issued 1,519,077 shares upon conversion of debentures redemptions in the principal amount of $150,390.

During the six months ended June 30, 2011, we issued 1,386,126 shares for the exercise of 2,250,000 options.

On January 11, 2011, per Gary Rabin's employment agreement, we issued 5,000,000 of common stock to Gary Rabin.

On February 11, 2011, we entered into an agreement with Gemini Master Fund ("Gemini"), whereby, we issued 20,000,000 shares to settle all past and current warrant issuances.

On February 14, 2011, we issued Robert Lanza 12,421,101 shares of common stock for services.

On February 15, 2011, we issued Transition Holdings, Ltd. 7,413,000 shares of common stock for full settlement of the licensing agreement with Transition Holdings, Ltd.

On May 16, 2011 the Company issued 751,406 shares of common stock valued at $133,600 to University of Massachusetts, to reestablish rights to a previously held licensing agreement.

In connection with the foregoing, the Company relied upon the exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. [REMOVED AND RESERVED]

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit	Description
31.1	Section 302 Certification of Principal Executive Officer and Principal Financial Officer.*
32.1	Certification of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350.*

* Filed herewith

30

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

ADVANCED CELL TECHNOLOGY, INC.

By: /s/ Gary Rabin
Gary Rabin
Interim Chief Executive Officer and Chairman
(Principal Executive Officer, Principal Financial Officer and
Principal Accounting Oficer)

Dated: August 4, 2011