BIOTIME INC
Form 10-Q
November 08, 2011

FORM 10-Q
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

(Mark One)

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

For the quarterly period ended September 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 1-12830

BioTime, Inc.
(Exact name of registrant as specified in its charter)

California	94-3127919
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

1301 Harbor Bay Parkway, Suite 100
Alameda, California 94502
(Address of principal executive offices)

(510) 521-3390
(Registrant's telephone number, including area code)

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. x Yes o No

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

Large accelerated filer	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). o Yes x No

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 50,247,744 common shares, no par value, as of October 31, 2011.

PART 1--FINANCIAL INFORMATION

Statements made in this Report that are not historical facts may constitute forward-looking statements that are subject to risks and uncertainties that could cause actual results to differ materially from those discussed. Such risks and uncertainties include but are not limited to those discussed in this report under Item 1 of the Notes to Financial Statements, and in BioTime's Annual Report on Form 10-K filed with the Securities and Exchange Commission. Words such as "expects," "may," "will," "anticipates," "intends," "plans," "believes," "seeks," "estimates," and similar e identify forward-looking statements.

Item 1. Financial Statements

BIOTIME, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS	September 30, 2011 (unaudited)	December 31, 2010
CURRENT ASSETS:		
Cash and cash equivalents	$ 26,230,298	$ 33,324,924
Inventory	61,115	45,470
Prepaid expenses and other current assets	2,263,782	2,202,284
Total current assets	28,555,195	35,572,678
Equipment, net	1,291,368	710,766
Deferred license and consulting fees	887,599	1,550,410
Deposits	65,263	51,900
Intangible assets, net	20,076,306	15,386,905
TOTAL ASSETS	$ 50,875,731	$ 53,272,659
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	$ 2,251,179	$ 1,929,874
Deferred grant income	271,247	261,777
Deferred license revenue, current portion	199,860	288,306
Total current liabilities	2,722,286	2,479,957
Commitments and contingencies		
LONG-TERM LIABILITIES:		
Deferred license revenue, net of current portion	936,019	1,048,757
Deferred rent, net of current portion	27,972	—
Other long term liabilities	272,720	318,288
Total long-term liabilities	1,236,711	1,367,045
EQUITY:		
Preferred shares, no par value, authorized 1,000,000 shares; none issued	—	—
Common shares, no par value, authorized 75,000,000 shares; 50,238,409 and 47,777,701 issued, and 48,952,235 and 47,777,701 outstanding at September 30, 2011 and December 31, 2010, respectively	114,739,837	101,135,428
Contributed capital	93,972	93,972
Accumulated other comprehensive (loss)/income	(99,488)	897,338
Accumulated deficit	(75,109,358)	(63,954,509)

Treasury stock at cost: 1,286,174 and nil shares at September 30, 2011 and December 31, 2010, respectively	(6,000,000)	—
Total shareholders' equity	33,624,963	38,172,229
Noncontrolling interest	13,291,771	11,253,428
Total equity	46,916,734	49,425,657
TOTAL LIABILITIES AND EQUITY	$ 50,875,731	$ 53,272,659

See accompanying notes to the condensed consolidated interim financial statements.

BIOTIME, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
REVENUES:				
License fees	$ 54,900	$ 73,255	$ 201,589	$ 204,439
Royalties from product sales	176,009	215,094	569,206	727,388
Grant income	746,426	418,412	1,605,612	1,208,602
Sale of research products	165,719	108,523	347,224	120,946
Total revenues	1,143,054	815,284	2,723,631	2,261,375
EXPENSES:				
Research and development	(3,445,708)	(1,808,357)	(9,572,436)	(4,397,109)
General and administrative	(1,929,711)	(1,464,631)	(6,377,390)	(3,961,375)
Total expenses	(5,375,419)	(3,272,988)	(15,949,826)	(8,358,484)
Loss from operations	(4,232,365)	(2,457,704)	(13,226,195)	(6,097,109)
OTHER INCOME/(EXPENSES):				
Interest income/(expense), net	2,911	(127)	19,705	(285)
Gain/(loss) on sale of fixed assets	(6,246)	950	(6,246)	950
Modification cost of warrants	—	(2,142,201)	—	(2,142,201)
Other income/(expense), net	(919)	(202,224)	223,944	(225,868)
Total other income/(expenses), net	$ (4,254)	$ (2,343,602)	$ 237,403	$ (2,367,404)
NET LOSS	(4,236,619)	(4,801,306)	(12,998,792)	(8,464,513)
Less: Net loss attributable to the noncontrolling interest	498,993	130,144	1,833,943	249,417
NET LOSS ATTRIBUTABLE TO BIOTIME, INC.	$ (3,737,626)	$ (4,671,162)	$ (11,154,849)	$ (8,215,096)
Foreign currency translation gain/(loss)	696,661	3,548	(901,881)	(2,363)
COMPREHENSIVE NET LOSS	$ (3,040,965)	$ (4,667,614)	$ (12,056,730)	$ (8,217,459)
BASIC AND DILUTED LOSS PER COMMON SHARE	$ (0.08)	$ (0.11)	$ (0.23)	$ (0.22)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING: BASIC AND DILUTED	49,330,358	42,653,125	48,827,928	38,010,958

See accompanying notes to the condensed consolidated interim financial statements.

BIOTIME, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended	
	September 30, 2011	September 30, 2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss attributable to BioTime, Inc.	$ (11,154,849)	$ (8,215,096)
Adjustments to reconcile net loss attributable to BioTime, Inc. to net cash used in operating activities:		
Depreciation expense	260,646	63,893
Amortization of intangible asset	1,626,476	320,833
Amortization of deferred license revenues	(162,943)	(301,462)
Amortization of deferred consulting fees	582,186	326,150
Amortization of deferred license fees	82,125	—
Amortization of deferred rent	32,403	(5,681)
Stock-based compensation	828,395	429,435
Options issued as independent director compensation	427,516	313,328
Write off of expired inventory	1,510	—
Loss on write-off of fixed assets	6,502	—
Modification cost of warrants	—	2,142,201
Share in net loss from associate	—	255,054
Net loss allocable to noncontrolling interest	(1,833,943)	(249,417)
Changes in operating assets and liabilities:		
Accounts receivable, net	(25,272)	(23,489)
Grant receivable	261,777	—
Inventory	21,154	(11,094)
Prepaid expenses and other current assets	(325,956)	17,625
Accounts payable and accrued liabilities	(581,072)	(55,561)
Other long term liabilities	(31,741)	—
Deferred revenues	(23,092)	37,500
Deferred grant income	9,878	—
Net cash used in operating activities	(9,998,300)	(4,955,781)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment	(780,524)	(166,447)
Loan to nonconsolidated company	—	(250,000)
Payment of license fee	(1,500)	(215,000)
Cash acquired as part of asset purchase, net of cash paid	3,150	—
Cash acquired in connection with merger	5,908	—
Cash paid in connection with acquisition	—	(80,000)
Security deposit received	250	3,997
Net cash used in investing activities	(772,716)	(707,450)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from the exercise of stock options from employees	106,153	106,640
Proceeds from the exercise of stock options from directors	112,328	19,672
Proceeds from the exercise of stock options from outside consultant	4,700	417,350

Proceeds from the exercise of warrants	425,000	18,129,530
Proceeds from the sale of common shares of subsidiary	3,213,500	—
Net cash provided by financing activities	3,861,681	18,673,192
Effect of exchange rate changes on cash and cash equivalents	(185,291)	(9,299)
NET CHANGE IN CASH AND CASH EQUIVALENTS:	(7,094,626)	13,000,662
Cash and cash equivalents at beginning of period	33,324,924	12,420,932
Cash and cash equivalents at end of period	$ 26,230,298	$ 25,421,594
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for interest	$ 1,073	$ 264
SUPPLEMENTAL SCHEDULE OF NON-CASH FINANCING AND INVESTING ACTIVITIES:		
Common shares issued in connection with investment in subsidiary	$ 6,000,000	$ —
Common shares issued in connection with the purchase of assets	$ 2,300,000	$ —
Common shares issued as part of merger	$ 2,600,000	$ —
Common shares issued as part of acquisition	$ —	$ 11,011,864
Warrants issued as part of merger	$ 954,879	$ —
Warrants issued as part of acquisition	$ —	$ 1,778,727
Warrants issued for service	$ —	$ 1,846,948

See accompanying notes to the condensed consolidated interim financial statements.

BIOTIME, INC.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(UNAUDITED)

1. Organization, Basis of Presentation, and Summary of Select Significant Accounting Policies

General– - BioTime is a biotechnology company engaged in two areas of biomedical research and product development. BioTime has historically developed blood plasma volume expanders and related technology for use in surgery, emergency trauma treatment and other applications. BioTime's primary focus is in the field of regenerative medicine; specifically human embryonic stem ("hES") cell and induced pluripotent stem ("iPS") cell technology. Regenerative medicine refers to therapies based on stem cell technology that are designed to rebuild cell and tissue function lost due to degenerative disease or injury. hES and iPS cells provide a means of manufacturing every cell type in the human body and therefore show considerable promise for the development of a number of new therapeutic products. BioTime plans to develop stem cell products for research and therapeutic use through its subsidiaries. OncoCyte Corporation ("OncoCyte") is developing products and technologies to diagnose and treat cancer. ES Cell International Pte. Ltd. ("ESI"), a Singapore private limited company, develops and sells hES products for research use. BioTime Asia, Limited ("BioTime Asia"), a Hong Kong company, sells products for research use and may develop therapies to treat cancer, neurological, and orthopedic diseases. OrthoCyte Corporation ("OrthoCyte") is developing therapies to treat orthopedic disorders, diseases and injuries. ReCyte Therapeutics, Inc., formerly known as Embryome Sciences, Inc. ("ReCyte Therapeutics"), is developing therapies to treat vascular and blood diseases and disorders . Cell Cure Neurosciences Ltd. ("Cell Cure Neurosciences"), is an Israel-based biotechnology company focused on developing stem cell-based therapies for retinal and neurological disorders, including the development of retinal pigment epithelial cells for the treatment of macular degeneration, and treatments for multiple sclerosis. LifeMap Sciences, Inc. ("LifeMap") is advancing the development and commercialization of BioTime's embryonic stem cell database and plans to make the database available for use by stem cell researchers at pharmaceutical and biotechnology companies and other institutions through paid subscriptions or on a fee per use basis.

BioTime is focusing a portion of its efforts in the field of regenerative medicine on the development and sale of advanced human stem cell products and technology that can be used by researchers at universities and other institutions, at companies in the bioscience and biopharmaceutical industries, and at other companies that provide research products to companies in those industries. Products for the research market generally can be sold without regulatory (FDA) approval, and are therefore relatively near-term business opportunities when compared to therapeutic products.

BioTime's operating revenues have been derived almost exclusively from royalties and licensing fees related to the sale of its plasma volume expander product, Hextend.® BioTime began to make its first stem cell research products available during 2008, but has not yet generated significant revenues from the sale of those products. BioTime's ability to generate substantial operating revenue in the near term depends upon its success in developing and marketing or licensing its plasma volume expanders and stem cell products and technology for medical and research use. On April 29, 2009, the California Institute of Regenerative Medicine ("CIRM") awarded BioTime a $4,721,706 grant for a stem cell research project related to its ACTCellerate™ technology. The CIRM grant covers the period of September 1, 2009 through August 31, 2012 and is paid in quarterly installments. During the quarter ended September 30, 2011, BioTime received a quarterly payment of $392,666. Grant revenues for the three months ended September 30, 2011 also includes $22,409 and $331,351 from other grants received by OrthoCyte and Cell Cure Neurosciences. During 2010, BioTime also received $476,724 of a $733,438 grant awarded under the U.S. Government's Qualifying Therapeutic Discovery Project ("QTDP"). BioTime received the remaining QTDP award in the amount of $256,714 during the six months ended June 30, 2011. The entire award from QTDP was recognized as revenues in 2010.

The unaudited condensed consolidated interim balance sheet as of September 30, 2011, the unaudited condensed consolidated interim statements of operations and comprehensive loss for the three and nine months ended September 30, 2011 and 2010, and the unaudited condensed consolidated interim statements of cash flows for the nine months ended September 30, 2011 and 2010 have been prepared by BioTime’s management in accordance with the instructions from the Form 10-Q and Regulation S-X. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the financial position, results of operations, and cash flows at September 30, 2011 have been made. The condensed consolidated balance sheet as of December 31, 2010 is derived from BioTime's annual audited financial statements as of that date. The results of operations for the nine months ended September 30, 2011 are not necessarily indicative of the operating results anticipated for the full year of 2011.

Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted as permitted by regulations of the Securities and Exchange Commission ("SEC") except for the condensed consolidated balance sheet as of December 31, 2010, which was derived from audited financial statements. Certain previously furnished amounts have been reclassified to conform with presentations made during the current periods. It is suggested that these condensed consolidated interim financial statements be read in conjunction with the annual audited condensed consolidated financial statements and notes thereto included in BioTime's Form 10-K for the year ended December 31, 2010.

Principles of consolidation – BioTime's condensed consolidated financial statements include the accounts of its subsidiaries. The following table reflects BioTime's ownership at September 30, 2011 of the outstanding shares of its subsidiaries.

Subsidiary	BioTime Ownership	Country
ReCyte Therapeutics, Inc. (formerly Embryome Sciences, Inc.)	95.15%	USA
OncoCyte Corporation	75%	USA
OrthoCyte Corporation	100%	USA
ES Cell International Pte., Ltd.	100%	Singapore
BioTime Asia, Limited	81%	Hong Kong
Cell Cure Neurosciences, Ltd.	53.6%	Israel
LifeMap Sciences, Inc.	100%	USA
LifeMap Sciences, Ltd.	100% (1)	Israel

(1) LifeMap Sciences, Ltd. is a wholly-owned subsidiary of LifeMap Sciences, Inc

All material intercompany accounts and transactions have been eliminated in consolidation. As of September 30, 2011 and as of December 31, 2010, we consolidated OncoCyte, OrthoCyte, ReCyte Therapeutics, ESI, Cell Cure Neurosciences, BioTime Asia and LifeMap Sciences as BioTime has the ability to control their operating and financial decisions and policies through its ownership, and BioTime reflects the noncontrolling interest as a separate element of equity on its condensed consolidated balance sheet.

Certain significant risks and uncertainties - BioTime's operations are subject to a number of factors that can affect its operating results and financial condition. Such factors include but are not limited to, the following: the results of clinical trials of pharmaceutical products; the ability to obtain United States Food and Drug Administration and foreign regulatory approval to market its pharmaceutical products; the ability to develop new stem cell research products and technologies; competition from products manufactured and sold or being developed by other companies; the price and demand for products; the ability to obtain additional financing and the terms of any such financing that may be obtained; BioTime's ability to negotiate favorable licensing or other manufacturing and marketing agreements for its products; the availability of ingredients used in products; and the availability of reimbursement for the cost of pharmaceutical products (and related treatment) from government health administration authorities, private health coverage insurers, and other organizations.

Use of estimates – The preparation of condensed consolidated interim financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated interim financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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Revenue recognition – BioTime complies with SEC Staff Accounting Bulletin guidance on revenue recognition. Royalty and license fee revenues consist of product royalty payments and fees under license agreements and are recognized when earned and reasonably estimable. BioTime recognizes revenue in the quarter in which the royalty reports are received, rather than the quarter in which the sales took place. When BioTime is entitled to receive up-front nonrefundable licensing or similar fees pursuant to agreements under which BioTime has no continuing performance obligations, the fees are recognized as revenues when collection is reasonably assured. When BioTime receives up-front nonrefundable licensing or similar fees pursuant to agreements under which BioTime does have continuing performance obligations, the fees are deferred and amortized ratably over the performance period. If the performance period cannot be reasonably estimated, BioTime amortizes nonrefundable fees over the life of the contract until such time that the performance period can be more reasonably estimated. Milestone payments, if any, related to scientific or technical achievements are recognized in income when the milestone is accomplished if (a) substantive effort was required to achieve the milestone, (b) the amount of the milestone payment appears reasonably commensurate with the effort expended, and (c) collection of the payment is reasonably assured. Grant income and the sale of research products are recognized as revenue when earned. Revenues from the sale of research products are primarily derived from the sale of hydrogels and stem cell products.

Cash and cash equivalents – BioTime considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Accounts receivable and allowance for doubtful accounts - Trade accounts receivable and grants receivable are presented in the prepaid expenses and other current assets line item of the condensed consolidated balance sheet. Total trade receivables amounted to $250,300 and $125,000 and grants receivable amounted to $272,420 and $543,000 as of September 30, 2011 and December 31, 2010, respectively. These amounts are deemed fully collectible; as such BioTime did not recognize any allowance for doubtful accounts as of September 30, 2011 and December 31, 2010. BioTime evaluates the collectability of its receivables based on a variety of factors, including the length of time receivables are past due and significant one-time events and historical experience. An additional reserve for individual accounts will be recorded if BioTime becomes aware of a customer's inability to meet its financial obligations, such as in the case of bankruptcy filings or deterioration in the customer's operating results or financial position. If circumstances related to customers change, estimates of the recoverability of receivables would be further adjusted.

Concentrations of credit risk – Financial instruments that potentially subject BioTime to significant concentrations of credit risk consist primarily of cash and cash equivalents. BioTime limits the amount of credit exposure of cash balances by maintaining its accounts in high credit quality financial institutions. Cash equivalent deposits with financial institutions may occasionally exceed the limits of insurance on bank deposits; however, BioTime has not experienced any losses on such accounts.

Equipment – Equipment is stated at cost. Equipment is being depreciated using the straight-line method over a period of 36 to 84 months.

Inventory – Inventories are stated at the lower of cost or market. Cost, which includes amounts related to materials, labor, and overhead, is determined in a manner which approximates the first-in, first-out ("FIFO") method.

Treasury stock – BioTime accounts for BioTime common shares issued to subsidiaries for future potential working capital needs as treasury stock on the consolidated balance sheet. BioTime has the intent and ability to register any unregistered shares to support the marketability of the shares.

Patent costs – Costs associated with obtaining patents on products or technology developed are expensed as general and administrative expenses when incurred. This accounting is in compliance with guidance promulgated by the Financial Accounting Standards Board (the "FASB") regarding goodwill and other intangible assets.

Research and development – BioTime complies with FASB requirements governing accounting for research and development costs. Research and development costs are expensed when incurred, and consist principally of salaries, payroll taxes, consulting fees, research and laboratory fees, and license fees paid to acquire patents or licenses to use patents and other technology from third parties.

Foreign currency translation gain/(loss) and Comprehensive loss - In countries in which BioTime operates, and the functional currency is other than the U.S. dollar, assets and liabilities are translated using published exchange rates in effect at the condensed consolidated balance sheet date. Revenues and expenses and cash flows are translated using an approximate weighted average exchange rate for the period. Resulting translation adjustments are recorded as a component of accumulated other comprehensive income on the condensed consolidated balance sheet. For the nine months ended September 30, 2011 and 2010, comprehensive loss includes loss of $901,881 and $2,363, respectively which is entirely from foreign currency translation.

Income taxes – BioTime accounts for income taxes in accordance with the accounting principles generally accepted in the United States of America ("GAAP") requirements, which prescribe the use of the asset and liability method, whereby deferred tax asset or liability account balances are calculated at the balance sheet date using current tax laws and rates in effect. Valuation allowances are established when necessary to reduce deferred tax assets when it is more likely than not that a portion or all of the deferred tax assets will not be realized. Effective January 1, 2007, BioTime adopted the provisions of a FASB Interpretation on accounting for uncertainty in income taxes. The FASB guidance also prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not sustainable upon examination by taxing authorities. BioTime recognizes accrued interest and penalties related to unrecognized tax benefits as income tax expense. No amounts were accrued for the payment of interest and penalties as of September 30, 2011 and December 31, 2010. Management is currently unaware of any tax issues under review

Stock-based compensation – BioTime adopted accounting standards governing share-based payments, which require the measurement and recognition of compensation expense for all share-based payment awards made to directors and employees, including employee stock options, based on estimated fair values. In March 2005, the SEC issued additional guidelines which provide supplemental implementation guidance for valuation of share-based payments. BioTime has applied the provisions of this guidance in such valuations as well. Consistent with those guidelines, BioTime utilizes the Black-Scholes Merton option pricing model. BioTime's determination of fair value of share-based payment awards on the date of grant using that option-pricing model is affected by BioTime's stock price as well as by assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, BioTime's expected stock price volatility over the term of the awards, and the actual and projected employee stock option exercise behaviors. The expected term of options granted is derived from historical data on employee exercises and post-vesting employment termination behavior. The risk-free rate is based on the United States Treasury rates in effect during the corresponding period of grant. Although the fair value of employee stock options is determined in accordance with recent FASB guidance, changes in the subjective assumptions can materially affect the estimated value. In management's opinion, the existing valuation models, including Black-Scholes Merton, may not provide an accurate measure of the fair value of BioTime's employee stock options because the option-pricing model value may not be indicative of the fair value that would be established in a willing buyer/willing seller market transaction.

Impairment of long-lived assets – BioTime's long-lived assets, including intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. If an impairment indicator is present, BioTime evaluates recoverability by a comparison of the carrying amount of the assets to future undiscounted net cash flows expected to be generated by the assets. If the assets are impaired, the impairment recognized is measured by the amount by which the carrying amount exceeds the estimated fair value of the assets.

Deferred license and consulting fees – Deferred license and consulting fees consist of the value of warrants issued to third parties for services and to the minority shareholder in BioTime Asia for consulting services, and deferred license fees paid to acquire rights to use the proprietary technologies of third parties. The value of the warrants is being amortized over the period the services are being provided, and the license fees are being amortized over the estimated useful lives of the licensed technologies or licensed research products. See Note 6.

Loss per share – Basic net loss per share is computed by dividing net loss available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted net loss per share reflects the weighted-average number of common shares outstanding plus the potential effect of dilutive securities or contracts which are convertible to common shares, such as options and warrants (using the treasury stock method) and shares issuable in future periods, except in cases where the effect would be anti-dilutive. Diluted loss per share for the three

and nine months ended September 30, 2011 and 2010 excludes any effect from 3,119,647 options and 636,613 warrants, and 3,542,000 options and 3,440,832 warrants, respectively, as the inclusion of those options and warrants would be antidilutive.

Fair value of financial instruments – The fair value of BioTime's assets and liabilities, which qualify as financial instruments under FASB guidance regarding disclosures about fair value of financial instruments, approximate the carrying amounts presented in the accompanying condensed consolidated balance sheets.

Effect of recently issued and recently adopted accounting pronouncements – In April 2010, the FASB issued an Accounting Standards Update ("ASU") which provides guidance on defining a milestone and determining when it may be appropriate to apply the milestone method of revenue recognition for research or development transactions. Research or development arrangements frequently include payment provisions whereby a portion or all of the consideration is contingent upon milestone events such as successful completion of phases in a study or achieving a specific result from the research or development efforts. The amendments in this standard provide guidance on the criteria that should be met for determining whether the milestone method of revenue recognition is appropriate. This standard is effective for fiscal years and interim periods within those years beginning on or after June 15, 2010, with early adoption permitted. This standard became effective for BioTime on January 1, 2011. The adoption of these provisions did not have a material impact on BioTime's condensed consolidated financial statements.

In December 2010, the FASB issued ASU 2010-29, Business Combinations — Disclosure of Supplementary Pro Forma Information for Business Combinations , ("ASU 2010-29"), that amends ASC Subtopic 805-50, Business Combinations — Disclosures , and requires public entities that are required to present comparative financial statements to disclose revenue and earnings of the combined entity as though the business combination that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The amendment also requires public entities to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. BioTime adopted the provisions of ASU 2010-29. The adoption of these provisions did not have a material impact on BioTime's condensed consolidated financial statements.

In June 2011, the FASB issued ASU No. 2011-05, Comprehensive Income (ASC Topic 220): Presentation of Comprehensive Income, ("ASU 2011-05") which amends current comprehensive income guidance. This accounting update eliminates the option to present the components of other comprehensive income as part of the statement of shareholders' equity. Instead, BioTime must report comprehensive income in either a single continuous statement of comprehensive income which contains two sections, net income and other comprehensive income, or in two separate but consecutive statements. ASU 2011-05 will be effective for public companies during the interim and annual periods beginning after December 15, 2011 with early adoption permitted. BioTime does not believe that the adoption of ASU 2011-05 will have a material impact on its consolidated results of operation and financial condition.

2. Inventory

At September 30, 2011, BioTime, held $46,870 of inventory of finished products on-site at its corporate headquarters in Alameda, California. At that same date $14,245 of inventory of finished products was held by a third party on consignment. At December 31, 2010, ReCyte Therapeutics, in which BioTime owns approximately a 95% interest, held $29,600 of inventory of finished products at its corporate headquarters and $15,870 of inventory of finished products was held by a third party on consignment. The inventory held by ReCyte Therapeutics was transferred to BioTime in connection with the change in focus of the subsidiary's business from the production and sale of products for the research market to the development of therapeutic products to treat vascular and blood disease and disorders.

3. Equipment

At September 30, 2011 and December 31, 2010, equipment, furniture and fixtures were comprised of the following:

	September 30, 2011 (unaudited)	December 31, 2010
Equipment, furniture and fixtures	$ 1,729,056	$ 876,708
Accumulated depreciation	(437,688)	(165,942)
Equipment, net	$ 1,291,368	$ 710,766

Depreciation expense amounted to $260,646 and $63,893 for the nine month periods ended September 30, 2011 and 2010, respectively. The difference between the depreciation expense recognized in the condensed consolidated statement of operations and the increase in accumulated depreciation of $271,746 per the condensed consolidated balance sheet is entirely attributed to foreign currency rates.

4. Intangible assets

At September 30, 2011 and December 31, 2010, intangible assets and accumulated intangible assets were comprised of the following:

	September 30, 2011 (unaudited)	December 31, 2010
Intangible assets	$ 22,455,905	$ 16,208,116
Accumulated amortization	(2,379,599)	(821,211)
Intangible assets, net	$ 20,076,306	$ 15,386,905

BioTime amortizes its intangible assets over an estimated period of 10 years on a straight line basis. BioTime recognized $1,626,476 in amortization expense of intangible assets during the nine months ended September 30, 2011. The difference between the amortization expense recognized in the condensed consolidated statement of operations and the increase in accumulated amortization of $1,558,388 per the condensed consolidated balance sheet is entirely attributed to foreign currency rates.

5. Accounts Payable and Accrued Liabilities

At September 30, 2011 and December 31, 2010, accounts payable and accrued liabilities consisted of the following:

	September 30, 2011 (unaudited)	December 31, 2010
Accounts payable	$ 982,508	$ 1,036,145
Accrued bonuses	—	367,822
Other accrued liabilities	1,268,671	525,907
	$ 2,251,179	$ 1,929,874

6. Royalty Obligation and Deferred License Fees

BioTime amortizes deferred license fees over the estimated useful lives of the licensed technologies or licensed research products. BioTime is applying a 10 year estimated useful life to the technologies and products that it is currently licensing. The estimation of the useful life any technology or product involves a significant degree of inherent uncertainty, since the outcome of research and development or the commercial life a new product cannot be known with certainty at the time that the right to use the technology or product is acquired. BioTime will review its amortization schedules for impairments that might occur earlier than the original expected useful lives.

BioTime did not amortize deferred license fees during the first nine months of 2010 on the basis that sales of products under the licenses had not yet begun. Because BioTime has modified its procedure for amortizing deferred license fees during the fourth quarter of 2010, certain differences have resulted in BioTime's research and development expenses, total expenses, and net loss for the three and nine months ended September 30, 2011 as compared to the three and nine months ended September 30, 2010. Had BioTime amortized deferred license fees during the three and nine months ended September 30, 2010, the amount of amortization would have been $26,479 and $79,437, respectively. BioTime does not believe that the difference was material to its results of operations for the prior period. Amortization of deferred license fees recognized during the three and nine months ended September 30, 2011 amounted to $27,375 and $82,125, respectively.

During January 2008, BioTime entered into a Commercial License and Option Agreement with Wisconsin Alumni Research Foundation ("WARF"). The WARF license permits BioTime to use certain patented and patent pending technology belonging to WARF, as well as certain stem cell materials, for research and development purposes, and for the production and marketing of products used as research tools, including in drug discovery and development. BioTime or ReCyte Therapeutics will pay WARF royalties on the sale of products and services using the technology or stem cells licensed from WARF. The royalty will range from 2% to 4%, depending on the kind of products sold. The royalty rate is subject to certain reductions if BioTime also becomes obligated to pay royalties to a third party in order to sell a product. In March 2009, BioTime amended its license agreement with WARF. The amendment increased the license fee from the original $225,000 to $295,000, of which $225,000 was paid in cash and $70,000 was paid by delivering BioTime common shares having a market value of $70,000 as of March 2, 2009. The amendment extended until March 2, 2010 the dates for payment of the $215,000 balance of the cash license fee and $20,000 in remaining reimbursement of costs associated with preparing, filing, and maintaining the licensed patents. The commencement date for payment of an annual $25,000 license maintenance fee was also extended to March 2, 2010. The licensing fees less the amortized portion were included in deferred license fees in BioTime's condensed consolidated balance sheet as of September 30, 2011 and December 31, 2010.

During July 2008, ReCyte Therapeutics entered into a License Agreement with Advanced Cell Technology, Inc. ("ACT"), under which ReCyte Therapeutics acquired exclusive worldwide rights to use ACT's "ACTCellerate" technology for methods to accelerate the isolation of novel cell strains from pluripotent stem cells. ReCyte Therapeutics paid ACT a $250,000 license fee and will pay an 8% royalty on sales of products, services, and processes that utilize the licensed technology. Once a total of $1,000,000 of royalties has been paid, no further royalties will be due. The license will expire in twenty years or upon the expiration of the last to expire of the licensed patents, whichever is later. The $250,000 license fee less the amortized portion is included in deferred license fees in BioTime's condensed consolidated balance sheet as of September 30, 2011 and December 31, 2010.

During August 2008, ReCyte Therapeutics entered into a License Agreement and a Sublicense Agreement with ACT under which ReCyte Therapeutics acquired world-wide rights to use an array of ACT technology (the "ACT License") and technology licensed by ACT from affiliates of Kirin Pharma Company, Limited (the "Kirin Sublicense"). The ACT License and Kirin Sublicense permit the commercialization of products in human therapeutic and diagnostic product markets.

The technology licensed by ReCyte Therapeutics covers methods to transform cells of the human body, such as skin cells, into an embryonic state in which the cells will be pluripotent. Under the ACT License, ReCyte Therapeutics paid ACT a $200,000 license fee and will pay a 5% royalty on sales of products, services, and processes that utilize the licensed ACT technology, and 20% of any fees or other payments (other than equity investments, research and development costs, loans and royalties) received by ReCyte Therapeutics from sublicensing the ACT technology to third parties. Once a total of $600,000 of royalties has been paid, no further royalties will be due. The license will expire in twenty years or upon the expiration of the last-to-expire of the licensed patents, whichever is later. The $200,000 license fee payment less the amortized portion is included in deferred license fees in BioTime's condensed

consolidated balance sheet as of September 30, 2011 and December 31, 2010.

Under the Kirin Sublicense, ReCyte Therapeutics has paid ACT a $50,000 license fee and will pay a 3.5% royalty on sales of products, services, and processes that utilize the licensed ACT technology, and 20% of any fees or other payments (other than equity investments, research and development costs, loans and royalties) received by ReCyte Therapeutics from sublicensing the Kirin Technology to third parties. ReCyte Therapeutics will also pay to ACT or to an affiliate of Kirin Pharma Company, Limited ("Kirin"), annually, the amount, if any, by which royalties payable by ACT under its license agreement with Kirin are less than the $50,000 annual minimum royalty due. Those payments by ReCyte Therapeutics will be credited against other royalties payable to ACT under the Kirin Sublicense. The license will expire upon the expiration of the last to expire of the licensed patents, or May 9, 2016 if no patents are issued. The $50,000 license fee payment less the amortized portion is included in deferred license fees in BioTime's condensed consolidated balance sheet as of September 30, 2011 and December 31, 2010.

In February 2009, ReCyte Therapeutics entered into a Stem Cell Agreement with Reproductive Genetics Institute ("RGI"). In partial consideration of the rights and licenses granted to ReCyte Therapeutics by RGI, BioTime issued to RGI 32,259 common shares, having a market value of $50,000 on the effective date of the Stem Cell Agreement. This $50,000 payment less the amortized portion is included in deferred license fees in BioTime's condensed consolidated balance sheet as of September 30, 2011 and December 31, 2010.

Through BioTime's acquisition of the assets of Cell Targeting, Inc. during March 2011, BioTime acquired a royalty-bearing, exclusive, worldwide license from the Sanford-Burnham Medical Research Institute ("SBMRI") to use certain patents pertaining to homing peptides for preclinical research investigations of cell therapy treatments, and to enhance cell therapy products for the treatment and prevention of disease and injury in conjunction with BioTime's own proprietary technology or that of a third party. BioTime assigned the SBMRI license to OncoCyte during July 2011. OncoCyte will pay SBMRI a royalty of 4% on the sale of pharmaceutical products, and 10% on the sale of any research-use products that OncoCyte develops using or incorporating the licensed technology; and 20% of any payments OncoCyte receives for sublicensing the patents to third parties. The royalties payable to SBMRI may be reduced by 50% if royalties or other fees must be paid to third parties in connection with the sale of any products. An annual license maintenance fee is payable each year during the term of the license, and after commercial sales of royalty bearing products commence, the annual fee will be credited towards OncoCyte's royalty payment obligations for the applicable year. OncoCyte will reimburse SBMRI for 25% of the costs incurred in filing, prosecuting, and maintaining patent protection, subject to OncoCyte's approval of the costs.

Cell Cure Neurosciences has entered into an Amended and Restated Research and License Agreement with Hadasit Medical Research Services and Development Ltd. ("Hadasit") under which Cell Cure Neurosciences received an exclusive license to use certain of Hadasit's patented technologies for the development and commercialization for hES cell-derived cell replacement therapies for retinal degenerative diseases. Cell Cure Neurosciences paid Hadasit 249,058 New Israeli Shekels as a reimbursement for patent expenses incurred by Hadasit, and pays Hadasit quarterly fees for research and product development services under a related Product Development Agreement. If Teva exercises its option to commercialize OpRegen,™ it will pay Cell Cure Neurosciences an initial license fee, plus milestone payments as the clinical development and commercialization of the product progress, and royalties on sales of OpRegen.™ Royalty payments would range from 6% to 10% of the net sale price of OpRegen,™ depending upon the total amount of annual sales. The license fee and milestone payments would total $29.5 million if clinical trials are successful and the product is sold in the United States and one or more European Union countries. The royalty payments will be reduced by 50% with respect to sales in any country in which a generic equivalent product is being sold by a third party unrelated to Teva. Payments of like amounts would be made to Cell Cure Neurosciences if OpRegen-Plus™ is successfully developed and marketed in the United States and one or more European Union countries.

If Teva does not exercise its option and Cell Cure Neurosciences instead commercializes OpRegen™ or OpRegen-Plus™ itself or sublicenses the Hadasit patents to a third party for the completion of development or commercialization of OpRegen™ or OpRegen-Plus,™ Cell Cure Neurosciences will pay Hadasit a 5% royalty on sales of products that utilize the licensed technology. Cell Cure Neurosciences will also pay sublicensing fees ranging from 10% to 30% of any payments Cell Cure Neurosciences receives from sublicensing the Hadasit patents to companies other than Teva. Commencing in January 2017, Hadasit will be entitled to receive an annual minimum royalty payment of $100,000 that will be credited toward the payment of royalties and sublicense fees otherwise payable to Hadasit during the calendar year.

If Teva does not exercise its option to license OpRegen™ or OpRegen-Plus™ and instead Cell Cure Neurosciences or a sublicensee other than Teva conducts clinical trials of OpRegen™ or OpRegen-Plus, ™ Hadasit will be entitled to receive certain payments from Cell Cure Neurosciences upon the first attainment of certain clinical trial milestones in the process of seeking regulatory approval to market a product developed by Cell Cure Neurosciences using the licensed

patents. Hadasit will receive $250,000 upon the enrollment of patients in the first Phase I clinical trial, $250,000 upon the submission of Phase II clinical trial data to a regulatory agency as part of the approval process, and $1 million upon the enrollment of the first patient in the first Phase III clinical trial.

Through its merger with Glycosan BioSystems, Inc. (discussed in Note 9) during March 2011, OrthoCyte acquired a license from the University of Utah to use certain patents in the production and sale of certain hydrogel products. Under the License Agreement, OrthoCyte will pay a 3% royalty on sales of products and services performed that utilize the licensed patents. Commencing in 2013, OrthoCyte will be obligated to pay minimum royalties to the extent that actual royalties on products sales and services utilizing the patents are less than the minimum royalty amount. The minimum royalty amounts are $15,000 in 2013, $22,500 in 2014, and $30,000 each year thereafter during the term of the License Agreement. OrthoCyte shall also pay the University of Utah 30% of any sublicense fees or royalties received under any sublicense of the licensed patents.

OrthoCyte will pay the University of Utah $5,000 upon the issuance of each of the first five licensed patents issued in the United States, subject to reduction to $2,500 for any patent that the University has licensed to two or more other licensees for different uses. OrthoCyte will also pay a $225,000 milestone fee within six months after the first sale of a “tissue engineered product” that utilizes a licensed patent. A tissue engineered product is defined as living human tissues or cells on a polymer platform, created at a place other than the point-of-care facility, for transplantation into a human patient.

During August 2011, BioTime entered into a License Agreement with Cornell University for the worldwide development and commercialization of technology for the differentiation of human embryonic stem cells into vascular endothelial cells.

Cornell will be entitled to receive a nominal initial license fee and nominal annual license maintenance fees. The obligation to pay annual license maintenance fees will end when the first human therapeutic products developed under the license is sold. BioTime will pay Cornell a milestone payment upon the achievement of a research product sale milestone amount, and will make milestone payments upon the attainment of certain United States Food and Drug Administration (FDA) approval milestones for therapeutic products developed under the license, including (i) the first Phase II clinical trial dosing of a human therapeutic product, (ii) the first Phase III clinical trial dosing of a human therapeutic product; (iii) FDA approval of the first human therapeutic product for age-related vascular disease; and (iv) FDA approval of the first human therapeutic product for cancer.

BioTime will pay Cornell royalties on the sale of products and services using the license, and will share with Cornell a portion of any cash payments, other than royalties, that BioTime receives for the grant of sublicenses to non-affiliates. The potential royalty percentage rates to be paid to Cornell will be in the low to mid-single digit range depending on the product. BioTime will also reimburse Cornell for costs related to the patent applications and any patents that may issue that are covered by the license.

In conjunction with the License Agreement, BioTime also entered into a Sponsored Research Agreement under which scientists at Weill Cornell Medical College will engage in certain research for BioTime over a three year period beginning August 2011.

7. Equity

Warrants

BioTime has issued warrants to purchase its common shares as payments for services and in connection certain business acquisitions. At September 30, 2011, 636,613 warrants to purchase common shares with a weighted average exercise price of $9.13 and a weighted average remaining contractual life of 1.94 years were outstanding.

Preferred Shares

BioTime is authorized to issue 1,000,000 preferred shares. The preferred shares may be issued in one or more series as the board of directors may by resolution determine. The board of directors is authorized to fix the number of shares of any series of preferred shares and to determine or alter the rights, references, privileges, and restrictions granted to or imposed on the preferred shares as a class, or upon any wholly unissued series of any preferred shares. The board of directors may, by resolution, increase or decrease (but not below the number of shares of such series then outstanding) the number of shares of any series of preferred shares subsequent to the issue of shares of that series.

Treasury Stock

BioTime accounts for BioTime common shares issued to subsidiaries for future potential working capital needs as treasury stock on the consolidated balance sheet. BioTime has the intent and ability to register any unregistered shares to support the marketability of the shares.

As of September 30, 2011, BioTime had no issued and outstanding preferred shares.

Common Shares

BioTime is authorized to issue 75,000,000 common shares with no par value. As of September 30, 2011, BioTime had issued and outstanding 50,238,409 common shares.

During the three and nine months ended September 30, 2011, BioTime received total cash of $25,600 and $223,181 from the exercise of 80,000 and 360,660 options, respectively, with average cash receipts of $0.32 and $0.62 per share, respectively.

During the three and nine months ended September 30, 2011, BioTime received total cash of $8,700 and $425,000 from the exercise of 2,900 and 219,000 warrants, respectively, with average cash receipts of $3.00 and $1.94 per share, respectively.

During the nine months ended September 30, 2011 and 2010, BioTime recognized stock-based compensation expenses of $1,255,911 and $742,763, respectively, due to stock options granted to employees and directors. During the nine months ended September 30, 2011 and 2010, BioTime granted 301,593 and 155,000 options, respectively, under its 2002 Stock Option Plan. During the nine months ended September 30, 2011, 11,876 options were forfeited. No options were forfeited in the same period in the prior year.

During August 2011, BioTime's subsidiary, OncoCyte sold 3,000,000 shares of common stock to a private investor who is also a BioTime shareholder for $3,000,000 in cash and OncoCyte sold to BioTime 7,000,000 shares of OncoCyte common stock for $1,000,000 in cash and 1,286,174 BioTime common shares having a market value of $6,000,000. These BioTime common shares are accounted for as treasury stock as of September 30, 2011.

8. Cell Targeting, Inc. Asset Purchase

On January 28, 2011, BioTime acquired substantially all of the assets of Cell Targeting, Inc. ("Cell Targeting"), a company that was engaged in research in regenerative medicine. The assets acquired consist primarily of patents, patent applications, and licenses to use certain patents. BioTime issued 261,959 of common shares and paid Cell Targeting $250,000 in cash to acquire the assets. The assets will be used by OncoCyte, which is developing cellular therapeutics for the treatment of cancer using vascular progenitor cells engineered to destroy malignant tumors.

The asset purchase is being accounted for as a business combination under the acquisition method of accounting. This means that even though BioTime did not directly assume and will not directly pay Cell Targeting's debts or other liabilities, for financial accounting purposes Cell Targeting's financial statements as of January 28, 2011, the date of the acquisition, are being consolidated with those of BioTime. In accordance with Accounting Standards Codification 805, Business Combinations ("ASC 805"), the total purchase consideration is allocated to the net tangible and identifiable intangible assets acquired and the Cell Targeting liabilities outstanding based on the estimated fair value of the assets and the amount of the liabilities as of January 28, 2011. BioTime amortizes intangible assets over their useful lives, which BioTime estimates to be 10 years.

The total purchase price of $2,550,000 is being allocated as indicated:

Components of the purchase price:		
BioTime common shares	$	2,300,000
Cash		250,000
Total purchase price	$	2,550,000

Preliminary allocation of purchase price:		
Assets acquired and Liabilities assumed:		
Cash	$	253,150
Other current assets		2,443
Intangible assets		3,012,640
Current liabilities		(718,233)
Net assets acquired	$	2,550,000

The fair value of the shares issued was $8.78, the average closing price per share of BioTime common shares as reported on the NYSE Amex for the twenty (20) trading days immediately preceding the third trading day prior to the closing date, January 28, 2011.

9. Merger with Glycosan BioSystems, Inc.

On March 21, 2011, BioTime completed the merger of Glycosan BioSystems, Inc. (“Glycosan”) into OrthoCyte. Through the merger, OrthoCyte acquired all of Glycosan's assets, including manufacturing equipment, inventory, and technology licenses, and assumed Glycosan's obligations, which at March 18, 2011 totaled approximately $252,000 and primarily consisted of trade payables, accrued salaries, legal fees, and repayment of amounts advanced to Glycosan. BioTime issued 332,903 common shares and 206,613 warrants to purchase BioTime common shares in connection with the merger.

The merger is being accounted for under the acquisition method of accounting. In accordance with ASC 805, the total purchase consideration is allocated to the net tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values as of March 21, 2011. BioTime amortizes intangibles over their useful lives, which BioTime estimates to be 10 years. In accordance with ASC 805, BioTime does not amortize goodwill. The purchase price was allocated using the information currently available, and may be adjusted after obtaining more information regarding, among other things, asset valuations, liabilities assumed, and revisions of preliminary estimates.

The total purchase price for the merger of $3,554,879 is being allocated as indicated:

Components of the purchase price:	
BioTime common shares	$ 2,600,000
BioTime warrants	954,879
Total purchase price	$ 3,554,879
Preliminary allocation of purchase price:	
Assets acquired and Liabilities assumed:	
Cash	$ 5,908
Other current assets	64,520
Property, plant and equipment, net	81,183
Intangible assets	3,592,039
Current liabilities	(188,771)
Net assets acquired	$ 3,554,879

The fair value of the shares issued was $7.81, the average closing price of BioTime common shares as reported on the NYSE Amex for the 10 trading days immediately preceding February 11, 2011, the date of the Merger Agreement. The fair value of the warrants issued was computed using a Black Scholes Merton option pricing model, which utilized the following assumptions: expected term of three years, which is equal to the contractual life of the warrants; risk-free rate of 1.12%; no expected dividend yield; 109.01% expected volatility; a stock price of $7.56; and an exercise price of $10.

10. Unaudited Pro Forma Interim Financial Information – Nine Months Ended September 30, 2011 and 2010

The following unaudited pro forma information gives effect to the acquisition of Cell Targeting, Glycosan, ESI and Cell Cure as if the acquisition took place on January 1, 2010. The pro forma information does not necessarily reflect the results of operations that would have occurred had the entities been a single company during the periods presented.

	Nine Months Ended	
	September 30, 2011 (Unaudited)	September 30, 2010 (Unaudited)
Revenues	$2,966,547	$ 2,643,141
Net loss available to common shareholders	$(13,033,673)	$ (10,758,610)
Net loss per common share – basic and diluted	$(0.27)	$ (0.27)

11. Subsequent Events

During July 2011, BioTime was awarded a $335,900 Small Business Innovation Research grant from the National Institutes of Health to develop HyStem® microcarriers for the propagation of human stem cells and as a means of cell delivery for human clinical applications. The grant period is from September 30, 2011 to September 29, 2012. BioTime will start drawing from this grant in the fourth quarter.

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

Overview

We are a biotechnology company engaged in two areas of biomedical research and product development. Initially we developed blood plasma volume expanders and related technology for use in surgery, emergency trauma treatment, and other applications. Currently we are primarily focused on regenerative medicine, an emerging field of therapeutic product development based on recent discoveries in stem cell research.

Our lead blood plasma expander product, Hextend,® is a physiologically balanced intravenous solution used in the treatment of hypovolemia, a condition caused by low blood volume, often from blood loss during surgery or injury. Hextend maintains circulatory system fluid volume and blood pressure, and keeps vital organs perfused during surgery and trauma care. Hextend is manufactured and distributed in the United States by Hospira, Inc., and in South Korea by CJ CheilJedang Corp ("CJ"), under license from us.

"Regenerative medicine" refers to an emerging field of therapeutic product development that may allow all human cell and tissue types to be manufactured on an industrial scale. Historically speaking, this has never been possible in the past, and was made possible by the first isolation of human embryonic stem ("hES") cells and creation of induced pluripotent stem ("iPS") cells. These cells are called "pluripotent stem cells" because they have the unique property of being able to branch out into each and every kind of cell in the human body such as the cell types that make up the brain, the blood, the heart, the lungs, the liver, and other tissues. Unlike adult-derived stem cells that have limited potential to become different cell types, pluripotent stem cells may have vast potential to supply an array of new regenerative therapeutic products, especially those targeting the large and growing markets associated with age-related degenerative disease. Unlike pharmaceuticals that require a molecular target, therapeutic strategies in regenerative medicine are generally aimed at regenerating the affected cells and tissues, and therefore may have broader applicability.

Our efforts in regenerative medicine include the development and sale of products designed for research applications as well as for diagnostic and therapeutic uses. We offer advanced human stem cell products and technology that can be used by researchers at universities, at companies in the bioscience and biopharmaceutical industries, and at other companies that provide research products to companies in those industries. Research products generally can be marketed without regulatory approval, and are therefore relatively near-term business opportunities, especially when compared to therapeutic products.

We have organized several subsidiaries to undertake our cell replacement therapeutic programs, diagnostic product programs, and our research product programs. We will partly or wholly fund these subsidiaries, recruit their management teams, assist them in acquiring technology, and provide general guidance for building the subsidiary companies. We may license patents and technology to the subsidiaries that we do not wholly own under agreements that will entitle us to receive royalty payments from the commercialization of products or technology developed by the subsidiaries.

The following table shows our subsidiaries, their respective principal fields of business, our percentage ownership, and the country where their principal business is located:

Subsidiary	Field of Business	BioTime Ownership	Country
ReCyte Therapeutics, Inc.	Blood and vascular diseases including coronary artery disease iPS cell banking	95.15%	USA
OncoCyte Corporation	Cancer	75%	USA
OrthoCyte Corporation	Orthopedic diseases, including osteoarthritis Biocompatible hydrogels that mimic the human extracellular matrix	100%	USA
ES Cell International Pte. Ltd.	Stem cell products for research, including cell lines produced under clinical “good manufacturing practices” (“GMP”)	100%	Singapore
BioTime Asia, Limited	Ophthalmologic, skin, musculo-skeletal system, and hematologic diseases. Stem cell products for research	81%	Hong Kong
Cell Cure Neurosciences, Ltd.	Age-related macular degeneration Multiple sclerosis Parkinson’s disease	53.6%	Israel
LifeMap Sciences, Inc	Stem cell data base	100%	USA

Hextend® and PentaLyte® are registered trademarks of BioTime, Inc., and ESpan™, and ESpy™ are trademarks of BioTime, Inc. HyStem® is a registered trademark and Extracel™ is a trademark of OrthoCyte Corporation. ReCyte™ is a trademark of ReCyte Therapeutics, Inc. OpRegen™ and OpRegen-Plus™ are trademarks of Cell Cure Neurosciences, Ltd. ACTCellerate™ is a trademark licensed to us by Advanced Cell Technology, Inc.

We were incorporated in 1990 in the state of California. Our principal executive offices are located at 1301 Harbor Bay Parkway, Alameda, California 94502. Our telephone number is (510) 521-3390.

Recent Developments

During July 2011, BioTime was awarded a $335,900 Small Business Innovation Research grant from the National Institutes of Health to develop HyStem® microcarriers for the propagation of human stem cells and as a means of cell delivery for human clinical applications. The grant period is from September 30, 2011 to September 29, 2012. BioTime will start drawing down against this grant in the fourth quarter.

During August 2011, we entered into a License Agreement with Cornell University for the worldwide development and commercialization of technology developed at Weill Cornell Medical College for the differentiation of human embryonic stem cells into vascular endothelial cells. The technology may provide an improved means of generating vascular endothelial cells on an industrial scale, and will be utilized by us in diverse products, including those under development at our subsidiary ReCyte Therapeutics, Inc. to treat age-related vascular disease, and products being developed at our subsidiary OncoCyte Corporation targeting the delivery of toxic payloads to cancerous tumors.

We and our subsidiaries plan to use the Cornell technology with our ACTCellerate™ technology to produce highly purified monoclonal embryonic vascular endothelium. See Note 6 to Condensed Consolidated Interim Financial Statements.

In conjunction with the Cornell License Agreement, during August 2011, we also entered into a three year Sponsored Research Agreement under which scientists at Weill Cornell Medical College, led by Sina Y. Rabbany, PhD, will engage in research with the goals of (1) verifying the ability of progenitor cells, derived by our subsidiary ReCyte Therapeutics using our ACTCellerate technology, to generate stable populations of vascular endothelial cells, (2) testing the functionality and transplantability of the vascular endothelial cells in animal models to see if the transplanted cells generate new vascular tissue, and (3) using Glycosan hydrogels, produced by our subsidiary OrthoCyte, and other materials as “scaffolds” for the three-dimensional propagation of vascular endothelial cells into vascular tissues suitable for transplantation.

During August 2011, our subsidiary, OncoCyte sold 3,000,000 shares of common stock to a private investor who is also a BioTime shareholder for $3,000,000 in cash, and OncoCyte sold l to us 7,000,000 shares of OncoCyte common stock for $1,000,000 in cash and 1,286,174 BioTime common shares having a market value of $6,000,000. These BioTime common shares are accounted for as treasury stock as of September 30, 2011. OncoCyte will use the funds raised from the sale of the shares for the expansion of its development of novel proprietary diagnostics and therapeutics for cancer in humans. OncoCyte's research has demonstrated that many of the same genes associated with the normal growth of embryonic stem cells are abnormally reactivated by cancer cells. Based on this finding, and utilizing its proprietary algorithms, OncoCyte has discovered and filed patent applications on over 100 novel cancer-associated genes. OncoCyte expects to use its new financing in part to expand its current patent portfolio of nine patent filings on these new genes and to advance the development and commercialization of resulting novel diagnostic and therapeutic products. In addition to its new diagnostic product line, OncoCyte is continuing to develop cellular therapeutics for cancer therapy that will take advantage of the unique biology of vascular endothelial precursor cells. OncoCyte's goal is to derive vascular endothelial cells that can be engineered to deliver a toxic payload to the developing blood vessels of a tumor to specifically remove malignant tumors while not affecting nearby normal tissues in the body.

During August 2011, four hES cell lines: ESI-035, ESI-049, ESI-051 and ESI-053, developed by our subsidiary ESI were approved by the National Institutes of Health (NIH) for inclusion in the NIH Human Embryonic Stem Cell Registry. This approval opens the door to the use of these cell lines in federally funded research. Two other ESI hES cell lines, ESI-014 and ESI-017, were previously included in the NIH Human Embryonic Stem Cell Registry. The ESI hES cell lines were derived using procedures and documentation that are in compliance with current Good Tissue Practices (cGTP) and current Good Manufacturing Practices (cGMP), are free of animal feeder cells and have been assessed for pluripotency and karyotypic stability. In collaboration with the California Institute of Regenerative Medicine, we have supplied research grade versions of these lines to dozens of researchers throughout California, including those in the University of California system. We have also derived the complete genome sequence of five of the ESI hES cell lines to facilitate the development of products derived from these cell lines. One of the ESI cell lines is being utilized by a large pharmaceutical company for potential use in its product development program.

Plasma Volume Expander Products

Royalties and licensing fees related to our plasma volume expander products, primarily Hextend, comprise a significant part of our operating revenues. Hextend has become the standard plasma volume expander at a number of prominent teaching hospitals and leading medical centers and is part of the Tactical Combat Casualty Care protocol of the United States Armed Forces.

Under our license agreements, Hospira and CJ will report sales of Hextend and pay us the royalties and license fees due on account of such sales after the end of each calendar quarter. We recognize such revenues in the quarter in which the sales report is received, rather than the quarter in which the sales took place. Accordingly, our royalty revenues for the three months ended September 30, 2011 consist of royalties on sales of Hextend made by Hospira and CJ during the period beginning March 1, 2011 and ending June 30, 2011.

Regenerative Medicine

Products for Research Use

We are marketing our stem cell products for research through our website biotimeinc.com. By an agreement with us, Millipore Corporation became a worldwide distributor of certain ACTCellerate™ human embryonic progenitor cell ("hEPC") lines and related ESpan™ growth media. We made our initial delivery of six hEPC lines to Millipore during January 2010, and these lines are being marketed and distributed on a worldwide basis. The companies anticipate jointly launching additional cell lines and associated optimized ESpan™ growth media for the in vitro propagation of each progenitor cell line in the future. The ACTCellerate™ hEPC lines and ESpan™ growth media products distributed by Millipore may also be purchased directly from us on our website biotimeinc.com. In addition to the products that we are co-marketing with Millipore, we now offer 102 other ACTCellerate™ hEPC lines for sale on biotimeinc.com , and we anticipate adding additional cell lines and related ESpan™ growth media and differentiation kits over time. We are also offering ACTCellerate™ hEPCs and ESpan™ growth media in Asia through BioTime Asia's distribution agreement with Shanghai Genext Medical Technology Co., Ltd.

Following our acquisition of Glycosan during May 2011, we began marketing HyStem® and Extracel™ PEGel hydrogel products for research purposes. We are also working to develop a HyStem® based product as a medical device for the implant of adult stem cells or therapeutic cells derived from hES cells.

During November and December 2010, we signed agreements with the California Institute for Regenerative Medicine ("CIRM") and the University of California system to distribute five human embryonic stem cell lines produced under the standard of GMP. The agreement provides for the lines to be distributed in two phases. In the first phase, BioTime provided research grade versions of the lines under a material transfer agreement that restricts the use to research use only. We provided research-grade cell lines free of charge to CIRM-funded and California-based researchers until April 30, 2011. Since that date, researchers may purchase the research-grade cells from us at a price of $2,800 per ampoule. As of September 30, 2011 we had provided research-grade lines to 28 researchers under this program, including researchers at Stanford University, the University of California San Francisco, the University of Southern California, the University of California Davis, the University of California Los Angeles, the University of California San Diego, California State University Fullerton as well as other institutions.

In the second phase, we are making the GMP-grade cell lines, along with certain documentation, available to researchers. The complete genomic DNA sequence information will be made available by the end of November 2011. We will charge a price for the GMP-grade cell lines that covers our production and delivery costs. Although no royalties will be payable to us by researchers who acquire the cell lines for research use, researchers who desire to use the GMP cell lines for therapeutic or diagnostic products, or for any other commercial purposes, may do so only after signing commercialization agreements acceptable to us. Commercialization agreements under this program will entitle us to receive royalties on net sales not to exceed 2% of net sales, reducible to 1.5% if the researcher must pay any other royalties in connection with the commercialization of their product.

We are still in the process of launching our first products for stem cell research and cannot yet predict the amount of revenue that may be generated by these new products.

Research and Development Programs in Regenerative Medicine and Stem Cell Research

The following table summarizes the most significant achievements in our primary research and development programs in stem cell research and regenerative medicine.

Company	Product Program	Status
BioTime(1) and ES Cell International Pte. Ltd. ("ESI")	ACTCellerate™ cell lines/growth media/reagent kits for stem cell research	Nearly 300 products for stem cell research are now being offered, including ACTCellerate™ hEPCs, ESpan™ cell line optimal growth media, and reagent cell differentiation kits. We plan to add additional cell lines, growth media, and differentiation kits with characterization of new hEPCs
	GMP hES cell lines	ESI has developed and offers for sale GMP hES cell lines for research purposes. Six ESI hES cell lines have been approved by the NIH for use in federally funded research.
BioTime(1)	CIRM-funded research project addressing the need for industrial-scale production of purified therapeutic cells	Conducted long-term stability studies of hEPCs using commercial-type culture processes to demonstrate phenotypic stability and genotypic stability during culture expansion. Attempting to define a molecular signature of cell surface markers that would be unique to a given hEPC cell line to permit development of reagents to those markers that can be used to purify the target hEPCs intended for therapy. Mapping cell surface protein expression directly on hEPCs using large collections of commercially available antibodies and have begun testing those antibodies as affinity reagents for purifying target hEPCs. Identifying peptide reagents that show specificity for cell surface targets on hEPCs and could thus be used directly as affinity reagents.
OncoCyte	Vascular endothelial cells that can be engineered to deliver a toxic payload to the developing blood vessels of a tumor	Developed a derivation protocol that can reproducibly produce populations of endothelial cells with levels of purity and efficiency above those reported in the published literature. Established broad range of support assays to monitor and measure vascular endothelial cell differentiation process. Initiated in vivo experiments monitoring incorporation of endothelial cells into developing mouse vasculature and into the developing vasculature of human tumor xenografts.

		Completed initial development of a toxic payload transgene system which can be induced at the site of tumors to destroy cancer cells.
	Genetic markers for cancer diagnosis	Demonstrated that many of the same genes associated with the normal growth of embryonic stem cells are abnormally reactivated by cancer cells. Based on this finding, and utilizing its proprietary algorithms, OncoCyte has discovered and filed patent applications on over 100 novel cancer-associated genes.
OrthoCyte	Cartilage repair using embryonic progenitor cells	Identified several cell lines that displayed molecular markers consistent with the production of definitive human cartilage. Confirmed chondrogenic potential in joint defects in rat models of osteoarthritis . Demonstrated that those cell lines can be combined with BioTime's HyStem Rx matrices to formulate a combination product for treating cartilage deficits.
	Biocompatible hydrogels that mimic the human extracellular matrix	Developed Extracel PEGgel and HyStem hydrogel products for basic laboratory research use Conducted pre-clinical development of HyStem Rx as an implantable cell delivery device Conducted toxicology studies of Hystem-Rx in the brains of laboratory mice. Results show no difference in reactive astrocytes, macrophages/microglia, neuronal number or blood vessel structure between saline controls and Hystem-Rx. There was no evidence of granulomata or foreign body reaction around either saline or Hystem-Rx injection sites. Two U.S. patents issued on hydrogels

Company	Product Program	Status
ReCyte Therapeutics	Therapeutic products for cardiovascular and blood diseases utilizing its proprietary ReCyte™ iPS technology.	Evaluating effects of telomere length on growth potential of iPS cells and iPS-derived progenitor lines. Through BioTime, formed a collaboration with researchers at Cornell Weill Medical College to derive clinical vascular endothelium for the treatment of age-related vascular disease. Demonstrated the feasibility of producing highly purified product using ACTCellerate™ technology.
BioTime	Hextend – Blood plasma volume expanders	Hextend is currently marketed to hospitals and physicians in the USA and Korea. Activities include complying with all regulatory requirements and promotional activities.
BioTime Asia	Distributing ACTCellerate hEPC lines growth media and reagents	Initial sales of cell lines, growth media, and differentiation kits, to customers in Asia.
Cell Cure Neurosciences	OpRegen™ and OpRegen-Plus™ for treatment of age related macular degeneration	Conducted animal model studies to establish proof of concept. Developed directed differentiation as efficient method for short culture period to produce a supply of retinal pigment epithelial cells. Granted Teva Pharmaceutical Industries, Ltd. an option to complete clinical development of, and to manufacture, distribute, and sell, OpRegen™ and OpRegen-Plus™
LifeMap	Stem cell database	Developing a database that will permit users to follow the development of embryonic stem cell lines to the thousands of progenitor cell lines and cell lineages branching from them. We aim to enable researchers to determine which cells they need for their research and provide the cell-related information necessary to better understand and develop therapeutics for various diseases such as diabetes, Parkinson's disease, heart failure, arthritis, muscular dystrophy, spinal cord injury, macular degeneration, hearing loss, liver failure, and many other disorders where cells and tissues become dysfunctional and need to be replaced.