

BIOTIME INC  
Form 10KSB  
April 17, 2007

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**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-KSB**

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

For the fiscal year ended December 31, 2006

OR

£ 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.**

(Name of small business issuer as specified in its charter)

**California**  
(State or other jurisdiction of  
incorporation or organization)

**94-3127919**  
(I.R.S. Employer  
Identification No.)

**6121 Hollis Street**  
**Emeryville, California 94608**  
(Address of principal executive offices) (Zip Code)

Issuer's telephone number, including area code **(510) 350-2940**

Securities registered pursuant to Section 12(b) of the Act:  
**None**

Securities registered pursuant to Section 12(g) of the Act

Title of class	<b>Common Shares, no par value</b>
Title of class	<b>Common Share Purchase Warrants</b>

Check whether the issuer is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes £ No T

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Check whether the issuer (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 T No £

Check if there is no disclosure of delinquent filers pursuant to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. £

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

The issuer's revenues for the fiscal year ended December 31, 2006 were \$1,162,015

The approximate aggregate market value of voting common shares held by nonaffiliates of the issuer computed by reference to the price at which common shares were sold as of March 1, 2007 was \$6,925,104. Shares held by each executive officer and director and by each person who beneficially owns more than 5% of the outstanding common shares have been excluded in that such persons may under certain circumstances be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

**22,574,374**

(Number of common shares outstanding as of March 1, 2007)

**Documents Incorporated by Reference**

None

Transitional Small Business Disclosure Format (check one): Yes £ No T

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PART I

*Statements made in this Form 10-KSB 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. Words such as “expects,” “may,” “will,” “anticipates,” “intends,” “plans,” “believes,” “seeks,” “estimates,” and similar expressions are forward-looking statements. See “Risk Factors” and Note 1 to Financial Statements.*

**Item 1. Description of Business**

**Overview**

BioTime, Inc. is engaged in the research and development of synthetic solutions that can be used as blood plasma volume expanders, blood replacement solutions during hypothermic (low temperature) surgery, and organ preservation solutions. Plasma volume expanders are used to treat blood loss in surgical or trauma patients until blood loss becomes so severe that a transfusion of packed red blood cells or other blood products is required. We are also developing a specially formulated hypothermic blood substitute solution that would have a similar function and would be used for the replacement of very large volumes of a patient’s blood during cardiac surgery, neurosurgery and other surgeries that involve lowering the patient’s body temperature to hypothermic levels.

Our first product, Hextend®, is a physiologically balanced blood plasma volume expander, for the treatment of hypovolemia. Hypovolemia is a condition caused by low blood volume, often from blood loss during surgery or from injury. Hextend maintains circulatory system fluid volume and blood pressure and helps sustain vital organs during surgery. Hextend, approved for use in major surgery, is the only blood plasma volume expander that contains lactate, multiple electrolytes, glucose, and a medically approved form of starch called hetastarch. Hextend is sterile to avoid risk of infection. Health insurance reimbursements and HMO coverage now include the cost of Hextend used in surgical procedures.

We are also developing two other blood volume replacement products, PentaLyte® and HetaCool®, which, like Hextend, have been formulated to maintain the patient’s tissue and organ function by sustaining the patient’s fluid volume and physiological balance. We have completed the patient enrollment and treatment portion of a Phase II clinical trial using PentaLyte in the treatment of hypovolemia in cardiac surgery, and we are now evaluating the results of the trial. PentaLyte contains a lower molecular weight hydroxyethyl starch than Hextend, and is more quickly metabolized. PentaLyte is designed for use when short lasting volume expansion is desirable. Our ability to complete clinical studies of PentaLyte will depend on our cash resources and the costs involved, which are not presently determinable.

Hextend is being distributed in the United States by Hospira, Inc. and in South Korea by CJ Corp. (“CJ”) under exclusive licenses from us. Hospira also has the right to obtain regulatory approval and market Hextend in Latin America and Australia. Summit Pharmaceuticals International Corporation (“Summit”) has a license to develop Hextend and PentaLyte in Japan, the People’s Republic of China, and Taiwan. Summit has entered into sublicenses with Maruishi Pharmaceutical Co., Ltd. (“Maruishi”) to obtain regulatory approval, manufacture, and market Hextend in Japan, and both Hextend and PentaLyte in China and Taiwan. See “Licensing” for more information about our licensing arrangements with Hospira, CJ and Summit.

Various colloid and crystalloid products are being marketed by other companies for use in maintaining patient fluid volume in surgery and trauma care, but those solutions do not contain the unique comprehensive combination of electrolytes, glucose, lactate and hydroxyethyl starch found in Hextend, PentaLyte, and HetaCool. The use of competing solutions has been reported to correlate with patient morbidity, fluid accumulation in body tissues, impaired blood clotting, and a disturbance of the delicate chemical balances on which most of the body's chemical reactions depend. One of these competing products is 6% hetastarch in saline solution. The United States Food and Drug Administration (the "FDA") has required the manufacturers of 6% hetastarch in saline solutions to change their product labeling by adding a warning stating that those products are not recommended for use as a cardiac bypass prime solution, or while the patient is on cardiopulmonary bypass, or in the immediate period after the pump has been disconnected. We have not been required to add that warning to the labeling of Hextend.

Another competing product is albumin produced from human plasma. Albumin is more expensive than Hextend and is subject to supply shortages. An FDA warning has cautioned physicians about the risk of administering albumin to seriously ill patients.

We are also continuing to develop solutions for low temperature surgery and trauma care. A number of physicians have reported using Hextend to treat hypovolemia under mild hypothermic conditions during cardiac surgery. Additional cardiac surgeries have been performed at deeper hypothermic temperatures. In one case, Hextend was used to treat hypovolemia in a cancer patient operated on under deep hypothermic conditions in which the heart was arrested. Once a sufficient amount of data from successful low temperature surgery has been compiled, we plan to seek permission to conduct trials using Hextend as a complete replacement for blood under near-freezing conditions. We currently plan to market Hextend for complete blood volume replacement at very low temperatures under the trademark "HetaCool" after FDA approval is obtained.

We were awarded a research grant by the National Heart, Lung, and Blood Institute division of the National Institutes of Health ("NIH") for use in the development of HetaCool. The grant is being used to fund a project entitled "Resuscitating Blood-Substituted Hypothermic Dogs" at the Texas Heart Institute in Houston under the guidance of Dr. George V. Letsou. Dr. Letsou is Associate Professor of Surgery and Director of the Heart Failure Center at the University of Texas Medical School in Houston, Texas. We have received \$240,251 of the grant funds through December 31, 2006. In 2007, the time period for drawing down the remainder of the grant funds was extended for another year, running through March 31, 2008.

BioTime was incorporated under the laws of the State of California on November 30, 1990. Our principal office is located at 6121 Hollis Street, Emeryville, California 94608. Our telephone number is (510) 350-2940.

Hextend,<sup>®</sup> PentaLyte,<sup>®</sup> and HetaCool<sup>®</sup> are registered trademarks of BioTime, Inc.

## **Products for Surgery, Plasma Volume Replacement and Emergency Care**

### *The Market for Plasma Volume Expanders*

We are developing Hextend, PentaLyte, HetaCool and other synthetic plasma expander solutions to treat acute blood loss that occurs as a result of trauma injuries and during many kinds of surgery. These products are synthetic, can be sterilized, and can be manufactured in large volumes. Hextend, PentaLyte, and HetaCool contain constituents that may maintain physiological balance when used to replace lost blood volume.

Hextend is also currently being used to treat hypovolemia subsequent to trauma or low blood pressure due to shock by emergency room physicians. After appropriate clinical testing and regulatory approval, it may be used by paramedics to treat acute blood loss in trauma victims being transported to the hospital. Hextend is part of the Tactical Combat Casualty Care protocol and has been purchased by the U.S. Armed Forces through intermittent large volume orders.

Approximately 10,000,000 surgeries take place in the United States each year, and blood transfusions are required in approximately 3,000,000 of those cases. Transfusions are also required to treat patients suffering severe blood loss due to traumatic injury. Many more surgical and trauma cases do not require blood transfusions but do involve significant bleeding that can place the patient at risk of suffering from shock caused by the loss of fluid volume (hypovolemia) and physiological balance. Whole blood and packed red cells generally cannot be administered to a patient until the patient's blood has been typed and sufficient units of compatible blood or red cells can be located. Periodic shortages of supply of donated human blood are not uncommon, and rare blood types are often difficult to locate. The use of human blood products also poses the risk of exposing the patient to blood-borne diseases such as AIDS and hepatitis.

Due to the risks and cost of using human blood products, even when a sufficient supply of compatible blood is available, physicians treating patients suffering blood loss are generally not permitted to transfuse red blood cells until the patient's level of red blood cells has fallen to a level known as the "transfusion trigger." During the course of surgery, while blood volume is being lost, the patient is infused with plasma volume expanders to maintain adequate blood circulation. During the surgical procedure, red blood cells are not generally replaced until the patient has lost approximately 45% to 50% of his or her red blood cells, thus reaching the transfusion trigger at which point the transfusion of red blood cells may be required. After the transfusion of red blood cells, the patient may continue to experience blood volume loss, which will be replaced with plasma volume expanders. Even in those patients who do not require a transfusion, physicians routinely administer plasma volume expanders to maintain sufficient fluid volume to permit the available red blood cells to circulate throughout the body and to maintain the patient's physiological balance.

Several units of fluid replacement products are often administered during surgery. The number of units will vary depending upon the amount of blood loss and the kind of plasma volume expander administered. Crystalloid products must be used in larger volumes than colloid products such as Hextend.

*The Market for Products for Hypothermic Surgery*

In 2003, more than 400,000 coronary bypass and other open-heart surgeries were performed in the United States. Current estimates indicate that more than one million people over age 55 have pathological changes associated with the aortic arch. Open-heart procedures often require the use of cardio-pulmonary bypass equipment to do the work of the heart and lungs during the surgery. During open-heart surgery and surgical procedures for the treatment of certain cardiovascular conditions such as large aneurysms, cardiovascular abnormalities and damaged blood vessels in the brain, surgeons must temporarily interrupt the flow of blood through the body. Interruption of blood flow can be maintained only for short periods of time at normal body temperatures because many critical organs, particularly the brain, are quickly damaged by the resultant loss of oxygen. As a result, certain surgical procedures are performed at low temperatures because lower body temperature helps to minimize the chance of damage to the patient's organs by reducing the patient's metabolic rate, thereby decreasing the patient's needs during surgery for oxygen and nutrients that normally flow through the blood.

Current technology limits the degree to which surgeons can lower a patient's temperature and the amount of time the patient can be maintained at a low body temperature because blood, even when diluted, cannot be circulated through the body at near-freezing temperatures. As a result, surgeons face severe time constraints in performing surgical procedures requiring blood flow interruption, and those time limitations prevent surgeons from correcting certain cardiovascular abnormalities.

*Hextend, PentaLyte and HetaCool*

Our first three blood volume replacement products, Hextend, PentaLyte, and HetaCool, have been formulated to maintain the patient's tissue and organ function by sustaining the patient's fluid volume and physiological balance. Hextend, PentaLyte, and HetaCool are composed of a hydroxyethyl starch, electrolytes, sugar and lactate in an aqueous base. Hextend and HetaCool use a high molecular weight hydroxyethyl starch (hetastarch) whereas PentaLyte uses a lower, molecular weight hydroxyethyl starch (pentastarch). The hetastarch is retained in the blood longer than the pentastarch, which may make Hextend and HetaCool the products of choice when a larger volume of plasma expander or blood replacement solution for low temperature surgery is needed, or where the patient's ability to restore his own blood proteins after surgery is compromised. PentaLyte, with pentastarch, would be eliminated from the blood faster than Hextend and HetaCool and might be used when less plasma expander is needed or where the patient is more capable of quickly restoring lost blood proteins. We believe that by testing and bringing these products to the market, we can increase our market share by providing the medical community with solutions to match patients' needs.

Certain clinical test results indicate that Hextend is effective at maintaining blood calcium levels when used to replace lost blood volume. Calcium can be a significant factor in regulating blood clotting and cardiac function. Clinical studies have also shown that Hextend maintains acid-base better than saline-based surgical fluids. We expect that PentaLyte will also be able to maintain blood calcium levels and acid-base balance based upon the fact that the electrolyte formulation of PentaLyte is identical to that of Hextend.



Albumin produced from human plasma is also used as plasma volume expander, but it is expensive and subject to supply shortages. Additionally, an FDA warning has cautioned physicians about the risk of administering albumin to seriously ill patients.

We have not attempted to synthesize potentially toxic and costly oxygen-carrying molecules such as hemoglobin because the loss of fluid volume and physiological balance may contribute as much to shock as the loss of the oxygen-carrying component of the blood. Surgical and trauma patients are routinely given supplemental oxygen and retain a substantial portion of their own red blood cells. Whole blood or packed red blood cells are generally not transfused during surgery or in trauma care until several units of plasma volume expanders have been administered and the patient's blood cell count has fallen to the transfusion trigger. Therefore, the lack of oxygen-carrying molecules in BioTime solutions should not pose a significant contraindication to use.

However, our scientists have conducted laboratory animal experiments in which they have shown that Hextend can be successfully used in conjunction with a hemoglobin-based oxygen carrier solution approved for veterinary purposes to completely replace the animal's circulating blood volume without any subsequent transfusion and without the use of supplemental oxygen. By diluting these oxygen carrier solutions, Hextend may reduce the potential toxicity and costs associated with the use of those products. Once such solutions have received regulatory approval and become commercially available, this sort of protocol may prove valuable in markets in parts of the developing world where the blood supply is extremely unsafe. These applications may also be useful in combat where logistics make blood use impracticable.

**Hextend** is our proprietary hetastarch-based synthetic blood plasma volume expander, designed especially to treat hypovolemia in surgery where patients experience significant blood loss. An important goal of the Hextend development program was to produce a product that can be used in multi-liter volumes. The safety related secondary endpoints targeted in the U.S. clinical study included those involving coagulation. We believe that the low incidence of adverse events related to blood clotting in the Hextend patients demonstrates that Hextend may be safely used in amounts exceeding 1.5 liters. An average of 1.6 liters of Hextend was used in the Phase III clinical trials, with an average of two liters for patients who received transfused blood products.

Hextend is also being used in surgery with cardio-pulmonary bypass circuits. In order to perform heart surgery, the patient's heart must be stopped and a mechanical apparatus is used to oxygenate and circulate the blood. The cardio-pulmonary bypass apparatus requires a blood compatible fluid such as Hextend to commence and maintain the process of diverting the patient's blood from the heart and lungs to the mechanical oxygenator and pump. In a clinical trial conducted in 2001, cardiac surgery patients treated with Hextend, maintained more normal kidney function, experienced less pain and nausea, showed less deep venous thrombosis, avoided dialysis, and had shorter delay times to first meal compared to those treated with other fluids.

**PentaLyte** is our proprietary pentastarch-based synthetic plasma expander, designed especially for use when a faster elimination of the starch component is desired and acceptable. Although Hextend can be used in these cases, some physicians appear to prefer a solution which can be metabolized faster and excreted earlier when the longer term protection provided by Hextend is not required. PentaLyte combines the physiologically balanced Hextend formulation with pentastarch that has a lower molecular weight and degree of substitution than the hetastarch used in Hextend. Plasma expanders containing pentastarch are currently widely used around the world. Our present plan is to seek approval of PentaLyte for use in the treatment of hypovolemia, and we are

presently evaluating the results of the patient treatment portion of a Phase II clinical study using PentaLyte in cardiac surgery for that purpose.

**HetaCool** is a modified formulation of Hextend. HetaCool is specifically designed for use at low temperatures. Surgeons are already using Hextend and a variety of other solutions to carry out certain limited procedures involving shorter term (up to nearly one hour) arrest of brain and heart function at temperatures between 15° and 25° C. However, we are not aware of any fluid currently used in medical practice or any medically approved protocol allowing operations that can completely replace all of a patient's blood at temperatures close to the ice point. We believe that very low temperature bloodless surgical techniques could be developed for open heart and minimally invasive closed chest cardiovascular surgeries, removal of tumors from and the repair of aneurysms in the brain, heart, and other areas, as well as in the treatment of trauma, toxicity and cancer.

The experimental protocol for the use of HetaCool as a solution to replace all of a patient's circulating blood volume during surgical procedures carried out at near freezing temperatures is being tested on animals in our NIH funded research program at the Texas Heart Institute. In medical use, HetaCool would be introduced into the patient's body during the cooling process. Once the patient's body temperature is nearly ice cold, and heart and brain function are temporarily arrested, the surgeon would perform the operation. During the surgery, HetaCool may be circulated throughout the body in place of blood, or the circulation may be arrested for a period of time if an interruption of fluid circulation is required. Upon completion of the surgery, the patient would be slowly warmed and blood would be transfused.

Hextend has already been used to partially replace blood during cancer surgery in which a patient's body temperature was lowered to 15°C and his heart was stopped for 27 minutes while the tumor was removed. The patient recovered without incident, and a case study of the procedure was published in the April 2002 issue of the *Canadian Journal of Anesthesia*. Hypothermic techniques may also have an important use in treating trauma patients that have experienced severe blood loss. We have conducted a research program using HetaCool in animal models of trauma at the State University of New York Health Science Center in Brooklyn. Laboratory results there have already supported the feasibility of using HetaCool to treat subjects following severe hemorrhage.

## **Organ Transplant Products**

### *The Market for Organ Preservation Solutions*

Organ transplant surgery is a growing field. Each year in the United States, approximately 5,000 donors donate organs, and approximately 5,000 people donate skin, bone and other tissues. As more surgeons have gained the necessary expertise, and surgical methods have been refined, the number of transplant procedures has increased, as has the percentage of successful transplants. Organ transplant surgeons and their patients face two major obstacles: the shortage of available organs from donors, and the limited amount of time that a transplantable organ can be kept viable between the time it is harvested from the donor and the time it is transplanted into the recipient.

The scarcity of transplantable organs makes them too precious to lose and increases the importance of effective preservation technology and products. Current organ removal and preservation technology generally requires multiple preservation solutions to remove and preserve effectively different groups of organs. The removal of one organ can impair the viability of other organs. Available technology does not permit surgeons to keep the remaining organs viable within

the donor's body for a significant time after the first organ is removed. Currently, an organ available for transplant is flushed with an ice-cold solution during the removal process to deactivate the organ and preserve its tissues, and then the organ is transported on ice to the donee. The ice-cold solutions currently used, together with transportation on ice, keep the organ healthy for only a short period of time. For example, the storage time for hearts is limited to approximately six hours. Because of the short time span available for removal and transplant of an organ, potential organ donees may not receive the needed organs.

We are seeking to address this problem by developing a more effective organ preservation solution that will permit surgeons to harvest all transplantable organs from a single donor. We believe that preserving the viability of all transplantable organs and tissues simultaneously, at low temperatures, would extend by several hours the time span in which the organs can be preserved prior to transplant.

**Using HetaCool for Multi-Organ Preservation.** We are seeking to develop HetaCool for use as a single solution that can simultaneously preserve all of a single donor's organs. When used as an organ preservation solution, HetaCool would be perfused into the donor's body while the body is chilled, thereby eliminating an undesirable condition called "warm ischemia," caused when an organ is warm while its blood supply is interrupted. The use of HetaCool in conjunction with the chilling of the body should help to slow down the process of organ deterioration by a number of hours so that a surgeon can remove all organs for donation and transplant. We currently estimate that each such preservation procedure could require as much as 50 liters of HetaCool.

We believe that the ability to replace an animal's blood with HetaCool, to maintain the animal at near freezing temperatures for several hours, and then revive the animal, would demonstrate that the solution could be used for human multi-organ preservation. BioTime scientists have revived animals after more than six hours of cold blood-substitution, and have observed heart function in animals maintained cold and blood-substituted for more than eight hours. An objective of our research and development program is to extend the time span in which animal subjects can be maintained in a cold, blood-substituted state before revival or removal of organs for transplant purposes. Organ transplant procedures using animal subjects could then be conducted to test the effectiveness of Hextend as an organ preservative.

A successful transplant of a lung cooled inside the donor's body prior to transplant has recently been reported in Sweden. The patient who received the lung was reported to be doing well several months later. The success of that transplant, which did not involve the use of a BioTime product, involved the preservation and transplant of a single organ, but indicates that hypothermic techniques can be used to preserve organs in the donor prior to removal for transplant.

#### *Long-term Tissue and Organ Banking*

The development of marketable products and technologies for the preservation of tissues and vital organs for weeks and months is a long-range goal of our research and development plan. To permit such long-term organ banking we are attempting to develop products and technologies that can protect tissues and organs from the damage that occurs when human tissues are subjected to subfreezing temperatures.

**HetaFreeze®** is one of a family of BioTime freeze-protective solutions that may ultimately allow the extension of time during which organs and tissues can be stored for future transplant or

surgical grafting. In laboratory experiments, our proprietary freeze-protective compounds have already been used to preserve skin. Silver dollar-sized full thickness shaved skin samples have been removed after saturation with HetaFreeze solution, frozen at liquid nitrogen temperatures and stored for periods ranging from days to weeks. The grafts were then warmed and sewn onto the backs of host animals. Many of these grafts survived. In other experiments, rat femoral arteries were frozen to liquid nitrogen temperatures, later thawed and then transplanted into host rats. These grafts were proven to last up to four months. The work was published in the October 2002 issue of the *Annals of Plastic Surgery*.

We have also developed a patent pending devise for hyperbaric freezing and thawing of tissues in a manner that might reduce or eliminate structural damage to the cells or tissue samples. This technology may have application in biological and medical research and in the storage of cells and tissues for medical use.

Our scientists have also shown that animals can be revived to consciousness after partial freezing with their blood replaced by HetaFreeze. While this technology has not developed to an extent that allows long term survival of the laboratory subjects and their organs, a better understanding of the effects of partial freezing could allow for extended preservation times for vital organs, skin and blood vessels.

### **Research and Development Strategy**

The greatest portion of our research and development efforts has been devoted to the development of Hextend, PentaLyte and HetaCool for conventional surgery, emergency care, low temperature surgery, and multi-organ preservation. A lesser portion of our research and development efforts have been devoted to developing solutions and protocols for storing organs and tissues at subfreezing temperatures. As the first products achieve market entry, more effort will be expended to bring the next tier of products to maturity.

Another major focus of our research and development effort has been on products and technology to extend the time animals can be kept cold and blood-substituted, and then revived without physical impairment. An integral part of that effort has been the development of techniques and procedures or “protocols” for use of our products. A substantial amount of data has been accumulated through animal tests, including the proper surgical techniques, drugs and anesthetics, the temperatures and pressures at which blood and blood replacement solutions should be removed, restored and circulated, solution volume, the temperature range, and times, for maintaining circulatory arrest, and the rate at which the subject should be rewarmed.

Experiments intended to test the efficacy of our low temperature blood replacement solutions and protocols for surgical applications involve replacing the animal’s blood with our solution, maintaining the animal in a cold blood-substituted state for a period of time, and then attempting to revive the animal. Experiments for multi-organ preservation involve the maintenance of the animal subjects at cold temperatures for longer periods of time than would be required for many surgical applications, followed by transplant procedures to test the viability of one or more of the subject’s vital organs.

We are also developing products for low temperature preservation of tissues and cells. This area research includes our work with HetaFreeze and a patent pending devise for hyperbaric freezing

and thawing of tissues in a manner that might reduce or eliminate structural damage to the cells or tissue samples.

In addition to our NIH funded research project at the Texas Heart Institute, we are conducting two collaborative research programs at the University of California at Berkeley. One program is testing our solutions and protocols designed for organ preservation, and the other program is an interventional gerontology project focused on the identification of specific factors central to aging of the brain and the development of medical and pharmacological strategies to treat senescence-related consequences.

We intend to continue to foster relations with research hospitals and medical schools for the purpose of conducting collaborative research projects because we believe that such projects will introduce our potential products to members of the medical profession and provide us with objective product evaluations from independent research physicians and surgeons.

Some of our studies indicate that Hextend can potentially be used in a variety of protocols in which donor blood is difficult or impossible to use, such as on the battlefield, or in parts of the world where there is a shortage of disease-free blood. For example, we have conducted preliminary laboratory animal studies using Hextend in a pressurized oxygen environment and found that Hextend can replace nearly all, or in some cases all, of the circulating blood of rats. Some of the rats were able to live long term without a subsequent transfusion, while others received their own blood back. In other cases, Hextend was used in large volumes in association with a hemoglobin-based oxygen carrier solution approved for veterinary use. When used in this way, rats were able to live long term after all their circulating blood was replaced at normal body temperature while breathing room air. In still other experiments, rats were allowed to lose approximately half their circulating blood volume, and then allowed to develop and remain in respiratory arrest from 10-18 minutes. They were then resuscitated with Hextend and either ventilated with 100% oxygen, or in a hyperbaric oxygen chamber containing 100% oxygen at two atmospheres above normal pressure. Some of the rats recovered and lived long term after as long as 15 minutes of respiratory arrest. The hyperbaric chamber appeared to have improved the outcome in a number of cases.

## **Licensing**

### *Hospira*

Hospira has the exclusive right to manufacture and sell Hextend in the United States, Canada, Latin America and Australia under a license agreement with us. Hospira is presently marketing Hextend in the United States. Hospira's license applies to all therapeutic uses other than those involving hypothermic surgery where the patient's body temperature is lower than 12°C ("Hypothermic Use"), or replacement of substantially all of a patient's circulating blood volume ("Total Body Washout").

Under the Hospira license agreement, we received license fees of \$2,500,000 for the grant of the license and the achievement of certain milestones.

Hospira also pays us a royalty on total annual net sales of Hextend. The royalty rate is 5% plus an additional .22% for each \$1,000,000 of annual net sales, up to a maximum royalty rate of 36%. The royalty rate for each year is applied on a total net sales basis. Hospira's obligation to pay royalties on sales of Hextend will expire on a country by country basis when all patents protecting

Hextend in the applicable country expire and any third party obtains certain regulatory approvals to market a generic equivalent product in that country. The relevant composition patents begin to expire in 2014 and the relevant methods of use patents expire in 2019.

We have the right to convert Hospira's exclusive license to a non-exclusive license or to terminate the license outright if certain minimum sales and royalty payments are not met. In order to terminate the license outright, we would pay a termination fee in an amount ranging from the milestone payments we received to an amount equal to three times prior year net sales, depending upon when termination occurs. Hospira has agreed to manufacture Hextend for sale by us in the event that the exclusive license is terminated.

Hospira has certain rights to acquire additional licenses to manufacture and sell our other plasma expander products in their market territory. If Hospira exercises these rights to acquire a license to sell such products for uses other than Hypothermic Surgery or Total Body Washout, in addition to paying royalties, Hospira will be obligated to pay a license fee based upon our direct and indirect research, development and other costs allocable to the new product. If Hospira desires to acquire a license to sell any of our products for use in Hypothermic Surgery or Total Body Washout, the license fees and other terms of the license will be subject to negotiation between the parties. For the purpose of determining the applicable royalty rates, net sales of any such new products licensed by Hospira will be aggregated with sales of Hextend. If Hospira does not exercise its right to acquire a new product license, we may manufacture and sell the product ourselves or we may license others to do so.

Hospira supplied us with batches of PentaLyte for our clinical trial, and performed characterization and stability studies, and other regulatory support needed for our clinical studies. The foregoing description of the Hospira license agreement is a summary only and is qualified in all respects by reference to the full text of that license agreement.

*CJ Corp.*

CJ markets Hextend in South Korea under an exclusive license from us. CJ paid us a license fee of \$800,000 in two installments, less Korean taxes of \$132,000 withheld. In connection with these installments, we paid a total finder's fee of \$80,000 to an unrelated third party. In addition to the license fees, CJ pays us a royalty on sales of Hextend. The royalty will range from \$1.30 to \$2.60 per 500 ml unit of product sold, depending upon the price approved by Korea's National Health Insurance. CJ is also responsible for obtaining the regulatory approvals required to manufacture and market PentaLyte, including conducting any clinical trials that may be required, and will bear all related costs and expenses.

The foregoing description of the CJ license is a summary only and is qualified in all respects by reference to the full text of the CJ license agreement.

*Summit*

We have entered into agreements with Summit to develop Hextend and PentaLyte in Japan, the People's Republic of China, and Taiwan. Summit has sublicensed to Maruishi the right to manufacture and market Hextend in Japan, and the right to manufacture and market Hextend and PentaLyte in China and Taiwan. The licenses do not include Hypothermic Use.

Under the sublicense, Maruishi will complete clinical trials required and obtain regulatory approval to market the licensed products. Summit will also participate in the clinical trial and regulatory approval process. A Phase II clinical trial using Hextend in surgery is presently being conducted in Japan, and if the results are favorable, Summit plans to begin a Phase III trial during 2008. Maruishi will not be obligated to begin to seek regulatory approval of Hextend or PentaLyte in China and Taiwan earlier than six months after the results of the Phase II study of Hextend in Japan or our Phase II study of PentaLyte in the United States are made available to them, or March 2009, whichever is later.

The revenues from licensing fees, royalties, and net sales, and any other payments made for co-development, manufacturing, or marking rights to Hextend and PentaLyte in Japan will be shared between BioTime and Summit as follows: 40% to us and 60% to Summit. Net sales means the gross revenues from the sale of a product, less rebates, discounts, returns, transportation costs, sales taxes and import/export duties.

Summit paid us a total of \$900,000 through 2005 for the right to co-develop Hextend and PentaLyte in Japan. In June 2005, we paid Summit a one-time fee of \$130,000 for Summit's services in preparing a product development plan. In addition, we received approximately \$237,356 from Summit as our share of a sublicense fee payment from Maruishi to Summit in October 2005. Additional milestone payments of 100,000,000 yen each, of which BioTime will receive 40%, are payable by Maruishi to Summit when a new drug application for Hextend is filed in Japan and when the new drug application is approved. The filing of a new drug application in Japan will not be done until clinical trials are completed, which could take several years. We will also be entitled to receive 40% of the royalties paid by Maruishi to Summit on sales in Japan. Royalties will range from 12% to 20% of net sales, depending upon the amount of Hextend sold. The royalty rates are subject to reduction if Summit does not complete its participation in Phase III trials of Hextend and the new drug application, or if Summit elects to co-market Hextend in Japan. However, if Summit sells Hextend, we will also be entitled to receive 40% of Summit's net sales revenues.

We will pay to Summit 8% of all net royalties that we receive from the sale of PentaLyte in the United States, plus 8% of any license fees that we receive in consideration of granting a license to develop, manufacture and market PentaLyte in the United States. Net royalties means royalty payments received during a calendar year, minus the following costs and expenses incurred during such calendar year: (a) all taxes assessed (other than taxes determined with reference to our net income) and credits given or owed by us in connection with the receipt of royalties on the sale of PentaLyte in the United States, and (b) all fees and expenses payable by us to the United States Food and Drug Administration (directly or as a reimbursement of any licensee) with respect to PentaLyte. In the case of license fees received from Hospira based upon the combined sale of PentaLyte and Hextend, the portion of that license fee that will be deemed to be a paid on account of the sale of PentaLyte will be determined by multiplying the total license fee paid by a fraction, the numerator of which will be the total net sales of PentaLyte in the United States for the applicable period and the denominator of which shall be the total net sales of Hextend and PentaLyte in the United States for the same period.

Summit paid us \$500,000 as the initial consideration for the China and Taiwan license. We also will be entitled to receive 50% of the royalties and milestone payments payable to Summit by its third-party sublicensee, Maruishi. Milestone payments of 20,000,000 yen are payable by Maruishi when the first new drug application for Hextend is filed and when the first clinical study of

PentaLyte begins under the sublicense. An additional milestone payment of 30,000,000 yen is payable by Maruishi when the first new drug application for PentaLyte is filed under the sublicense.

The foregoing description of the Summit agreement is a summary only and is qualified in all respects by reference to the full text of the Summit agreements.

#### *Other Licensing Efforts*

We are discussing prospective licensing arrangements with other pharmaceutical companies that have expressed their interest in marketing our products abroad. In licensing arrangements that include marketing rights, the participating pharmaceutical company would be entitled to retain a large portion of the revenues from sales to end users and would pay us a royalty on net sales. There is no assurance that any such licensing arrangements can be made.

### **Manufacturing**

#### *Manufacturing Arrangements*

Hospira manufactures Hextend for use in the North American market, and CJ manufactures Hextend for use in South Korea. NPBI International, BV, a Netherlands company (“NPBI”), has manufactured batches of Hextend for our use in seeking regulatory approval in Europe. Hospira, CJ, and NPBI have the facilities to manufacture Hextend and other BioTime products in commercial quantities. If Hospira and CJ choose not to manufacture and market PentaLyte or other BioTime products, and if NPBI declines to manufacture BioTime products on a commercial basis, other manufacturers will have to be found that would be willing to manufacture products for us or any licensee of our products.

#### *Facilities Required*

Any products that are used in clinical trials for regulatory approval in the United States or abroad, or that are approved by the FDA or foreign regulatory authorities for marketing, have to be manufactured according to “good manufacturing practices” at a facility that has passed regulatory inspection. In addition, products that are approved for sale will have to be manufactured in commercial quantities, and with sufficient stability to withstand the distribution process, and in compliance with such domestic and foreign regulatory requirements as may be applicable. The active ingredients and component parts of the products must be medical grade or themselves manufactured according to FDA-acceptable “good manufacturing practices.”

We do not have facilities to manufacture our products in commercial quantities, or under “good manufacturing practices.” Acquiring a manufacturing facility would involve significant expenditure of time and money for design and construction of the facility, purchasing equipment, hiring and training a production staff, purchasing raw material and attaining an efficient level of production. Although we have not determined the cost of constructing production facilities that meet FDA requirements, we expect that the cost would be substantial, and that we would need to raise additional capital in the future for that purpose. To avoid the incurrence of those expenses and delays, we are relying on contract and licensing arrangements with established pharmaceutical companies for the production of our products, but there can be no assurance that satisfactory arrangements will be made for any new products that we may develop.



### *Raw Materials*

Although most ingredients in the products we are developing are readily obtainable from multiple sources, we know of only a few manufacturers of the hydroxyethyl starches that serve as the primary drug substance in Hextend, PentaLyte and HetaCool. Hospira and CJ presently have a source of supply of the hydroxyethyl starch used in Hextend, PentaLyte and HetaCool, and have agreed to maintain a supply sufficient to meet market demand for Hextend in the countries in which they market the product. We believe that we will be able to obtain a sufficient supply of starch for our needs in the foreseeable future, although we do not have supply agreements in place. If for any reason a sufficient supply of hydroxyethyl starch could not be obtained, we or a licensee would have to acquire a manufacturing facility and the technology to produce the hydroxyethyl starch according to good manufacturing practices. We would have to raise additional capital to participate in the development and acquisition of the necessary production technology and facilities.

If arrangements cannot be made for a source of supply of hydroxyethyl starch, we would have to reformulate our solutions to use one or more other starches that are more readily available. In order to reformulate our products, we would have to perform new laboratory testing to determine whether the alternative starches could be used in a safe and effective synthetic plasma volume expander, low temperature blood substitute or organ preservation solution. If needed, such testing would be costly to conduct and would delay our product development program, and there is no certainty that any such testing would demonstrate that an alternative ingredient, even if chemically similar to the one currently used, would be as safe or effective.

### **Marketing**

Hextend is being distributed in the United States by Hospira and in South Korea by CJ under exclusive licenses from us. Hospira also has the right to obtain licenses to manufacture and sell other BioTime products. We have granted Hospira the right to market Hextend in Latin America and Australia, we have granted CJ the right to market PentaLyte in South Korea, and we have licensed to Summit the right to market Hextend and PentaLyte in Japan, China and Taiwan, but our licensees will have to first obtain the foreign regulatory approvals required to sell our product in those countries.

Because Hextend is a surgical product, sales efforts must be directed to physicians and hospitals. The Hextend marketing strategy is designed to reach its target customer base through sales calls and an advertising campaign focused on the use of a plasma-like substance to replace lost blood volume and the ability of Hextend to support vital physiological processes.

Hextend competes with other products used to treat or prevent hypovolemia, including albumin, generic 6% hetastarch solutions, and crystalloid solutions. The competing products have been commonly used in surgery and trauma care for many years, and in order to sell Hextend, physicians must be convinced to change their product loyalties. Although albumin is expensive, crystalloid solutions and generic 6% hetastarch solutions sell at low prices. In order to compete with other products, particularly those that sell at lower prices, Hextend will have to be recognized as providing medically significant advantages.

The FDA has required the manufacturers of 6% hetastarch in saline solutions to change their product labeling by adding a warning stating that those products are not recommended for use as a

cardiac bypass prime solution, or while the patient is on cardiopulmonary bypass, or in the immediate period after the pump has been disconnected. We have not been required to add that warning to the labeling of Hextend. An article discussing this issue entitled “6% Hetastarch in Saline Linked to Excessive Bleeding in Bypass Surgery” appeared in the December 2002 edition of *Anesthesiology News*. We understand that a number of hospitals have switched from 6% hetastarch in saline to Hextend due to these concerns.

As part of the marketing program, a number of studies have been conducted that show the advantages of receiving Hextend and other BioTime products during surgery. As these studies are completed, the results are presented at medical conferences and articles written for publication in medical journals. We are also aware of independent studies using Hextend that are being conducted by physicians and hospitals who may publish their findings in medical journals or report their findings at medical conferences. The outcome of future medical studies and timing of the publication or presentation of the results could have an effect on Hextend sales.

### **Government Regulation**

The FDA and foreign regulatory authorities will regulate our proposed products as drugs, biologicals, or medical devices, depending upon such factors as the use to which the product will be put, the chemical composition and the interaction of the product on the human body. In the United States, products that are intended to be introduced into the body, such as blood substitute solutions for low temperature surgery and plasma expanders, will be regulated as drugs and will be reviewed by the FDA staff responsible for evaluating biologicals.

Our domestic human drug products will be subject to rigorous FDA review and approval procedures. After testing in animals, an Investigational New Drug Application (IND) must be filed with the FDA to obtain authorization for human testing. Extensive clinical testing, which is generally done in three phases, must then be undertaken at a hospital or medical center to demonstrate optimal use, safety and efficacy of each product in humans. Each clinical study is conducted under the auspices of an independent Institutional Review Board (“IRB”). The IRB will consider, among other things, ethical factors, the safety of human subjects and the possible liability of the institution. The time and expense required to perform this clinical testing can far exceed the time and expense of the research and development initially required to create the product. No action can be taken to market any therapeutic product in the United States until an appropriate New Drug Application (“NDA”) has been approved by the FDA. Even after initial FDA approval has been obtained, further studies may be required to provide additional data on safety or to gain approval for the use of a product as a treatment for clinical indications other than those initially targeted. In addition, use of these products during testing and after marketing could reveal side effects that could delay, impede or prevent FDA marketing approval, resulting in a FDA-ordered product recall, or in FDA-imposed limitations on permissible uses.

The FDA regulates the manufacturing process of pharmaceutical products, requiring that they be produced in compliance with “good manufacturing practices.” See “Manufacturing.” The FDA also regulates the content of advertisements used to market pharmaceutical products. Generally, claims made in advertisements concerning the safety and efficacy of a product, or any advantages of a product over another product, must be supported by clinical data filed as part of an NDA or an amendment to an NDA, and statements regarding the use of a product must be consistent with the FDA approved labeling and dosage information for that product.

Sales of pharmaceutical products outside the United States are subject to foreign regulatory requirements that vary widely from country to country. Even if FDA approval has been obtained, approval of a product by comparable regulatory authorities of foreign countries must be obtained prior to the commencement of marketing the product in those countries. The time required to obtain such approval may be longer or shorter than that required for FDA approval.

### **Patents and Trade Secrets**

We currently hold 21 issued United States patents having composition and methods of use claims covering our proprietary solutions, including Hextend and PentaLyte. The most recent U.S. patents were issued during 2002. Some of our allowed claims in the United States, which include the composition and methods of use of Hextend and PentaLyte, are expected to remain in force until 2014 in the case of the composition patents and 2019 in the case of the methods of use patents. Patents covering certain of our solutions have also been issued in several countries of the European Union, Australia, Israel, Russia, South Africa, South Korea, Japan, China, Hong Kong, Taiwan and Singapore, and we have filed patent applications in other foreign countries for certain products, including Hextend, HetaCool, and PentaLyte. Certain device patents describing our hyperbaric (high pressure oxygen) chamber, and proprietary microcannula (a surgical tool) have also been issued in the United States and overseas, both of which - although only used in research so far - have possible indications in clinical medicine. We have also filed patent applications for our new device designed to freeze and thaw tissues.

There is no assurance that any additional patents will be issued. There is also the risk that any patents that we hold or later obtain could be challenged by third parties and declared invalid or infringing of third party claims. Further, the enforcement of patent rights often requires litigation against third party infringers, and such litigation can be costly to pursue.

In addition to patents, we rely on trade secrets, know-how and continuing technological advancement to maintain our competitive position. We have entered into intellectual property, invention and non-disclosure agreements with our employees and it is our practice to enter into confidentiality agreements with our consultants. There can be no assurance, however, that these measures will prevent the unauthorized disclosure or use of our trade secrets and know-how or that others may not independently develop similar trade secrets and know-how or obtain access to our trade secrets, know-how or proprietary technology.

### **Competition**

Our plasma volume expander solutions will compete with products currently used to treat or prevent hypovolemia, including albumin, other colloid solutions, and crystalloid solutions presently manufactured by established pharmaceutical companies, and with human blood products. Some of these products, in particular crystalloid solutions, are commonly used in surgery and trauma care and sell at low prices. In order to compete with other products, particularly those that sell at lower prices, our products will have to be recognized as providing medically significant advantages. Like Hextend, the competing products are being manufactured and marketed by established pharmaceutical companies that have large research facilities, technical staffs and financial and marketing resources. B.Braun presently markets Hespan, an artificial plasma volume expander containing 6% hetastarch in saline solution. Hospira and Baxter International manufacture and sell a generic equivalent of Hespan. As a result of the introduction of generic plasma expanders intended to compete with Hespan, competition in the plasma expander market has intensified and wholesale

prices have declined. Hospira, which markets Hextend in the United States, is also the leading seller of generic 6% hetastarch in saline solution. Sanofi-Aventis, Baxter International, and Alpha Therapeutics sell albumin, and Hospira, Baxter International, and B.Braun sell crystalloid solutions.

To compete with new and existing plasma expanders, we have developed products that contain constituents that may prevent or reduce the physiological imbalances, bleeding, fluid overload, edema, poor oxygenation, and organ failure that can occur when competing products are used. To compete with existing organ preservation solutions, we have developed solutions that can be used to preserve all organs simultaneously and for long periods of time.

A number of other companies are known to be developing hemoglobin and synthetic red blood cell substitutes and technologies. Our products have been developed for use either before red blood cells are needed or in conjunction with the use of red blood cells. In contrast, hemoglobin and other red blood cell substitute products are designed to remedy ischemia and similar conditions that may result from the loss of oxygen-carrying red blood cells. Those products would not necessarily compete with our products unless the oxygenating molecules were included in solutions that could replace fluid volume and prevent or reduce the physiological imbalances as effectively as our products. Generally, red blood cell substitutes are more expensive to produce and potentially more toxic than Hextend and PentaLyte.

The competition we face is likely to intensify further as new products and technologies reach the market. Superior new products are likely to sell for higher prices and generate higher profit margins once acceptance by the medical community is achieved. Those companies that are successful in introducing new products and technologies to the market first may gain significant economic advantages over their competitors in the establishment of a customer base and track record for the performance of their products and technologies. Such companies will also benefit from revenues from sales that could be used to strengthen their research and development, production, and marketing resources. All companies engaged in the medical products industry face the risk of obsolescence of their products and technologies as more advanced or cost effective products and technologies are developed by their competitors. As the industry matures, companies will compete based upon the performance and cost effectiveness of their products.

## **Employees**

As of December 31, 2006, we employed nine persons on a full-time basis and one person on a part-time basis. Four full-time employees hold Ph.D. Degrees in one or more fields of science.

## **Item 2. Description of Property**

We occupy our office and laboratory facility in Heritage Square in Emeryville, California under a lease that will expire on May 31, 2010, with a five year extension option. We presently occupy approximately 5,244 square feet of space and pay monthly rent in the amount of \$10,802. Our rent will increase by 3% each year during the initial five year term. If the option to extend the lease is exercised, monthly rent will be set at 95% of fair market rent at that time. In addition to rent, we will pay our prorata share of operating expenses and real estate taxes for the building in which our space is located or for the Heritage Square project as a whole, as applicable, based upon the ratio that the number of square feet we rent bears to the total number of square feet in the building or project.

**Item 3. Legal Proceedings**

We are not presently involved in any material litigation or proceedings, and to our knowledge no such litigation or proceedings are contemplated.

**Item 4. Submission of Matters to a Vote of Security Holders**

None.

## Part II

### Item 5. Market for Common Equity, Related Stockholder Matters and Small Business Issuer Purchases of Equity Securities

BioTime common shares were traded on the American Stock Exchange from August 31, 1999 until July 14, 2005, and have been quoted on the OTC Bulletin Board under the symbol BTIM since July 15, 2005. BioTime shares traded on the Nasdaq National Market from April 28, 1998 to August 30, 1999, and on the Nasdaq SmallCap Market from March 5, 1992 through April 27, 1998.

The following table sets forth the range of high and low sale or bid prices for the common shares for the fiscal years ended December 31, 2005 and 2006 based on transaction data as reported by the AMEX and the Nasdaq OTC Bulletin Board:

Quarter Ended	High	Low
March 31, 2005	1.67	1.12
June 30, 2005	1.19	0.52
September 30, 2005	0.80	0.35
December 31, 2005	0.43	0.20
March 31, 2006	0.46	0.28
June 30, 2006	0.41	0.21
September 30, 2006	0.39	0.18
December 31, 2006	0.49	0.20

Over-the-counter market quotations may reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

As of January 31, 2006, there were 5,401 holders of the common shares.

BioTime has paid no dividends on its common shares since its inception and does not plan to pay dividends on its common shares in the foreseeable future. We are also prohibited from paying dividends under the terms of a Revolving Line of Credit Agreement.

The following table shows certain information concerning the options and warrants outstanding and available for issuance under all of our compensation plans and agreements as of December 31, 2006.

Plan Category	Number of Shares to be Issued Upon Exercise of Outstanding Options, Warrants, and Rights	Weighted Average Exercise Price of the Outstanding Options, Warrants, and Rights	Number of Shares Remaining Available for Future Issuance Under Equity Compensation Plans
Equity Compensation Plans Approved by Shareholders	9,654,978	\$2.03	407,836
Equity Compensation Plans Not Approved By Shareholders	100,000	\$4.00	—

## Item 6. Management's Discussion and Analysis or Plan of Operation

### Overview

We are in the business of developing blood plasma volume expanders and related products. Our operating revenues have been generated primarily from licensing fees and from royalties on the sale of Hextend. Our ability to generate substantial operating revenue depends upon our success in developing and marketing or licensing our plasma volume expanders and organ preservation solutions and technology for medical use.

Most of our research and development efforts have been devoted to our first three blood volume replacement products: Hextend, PentaLyte, and HetaCool. By testing and bringing all three products to the market, we can increase our market share by providing the medical community with solutions to match patients' needs. By developing technology for the use of HetaCool in low temperature surgery, trauma care, and organ transplant surgery, we may also create new market segments for our product line.

Royalties on sales of Hextend that occurred during the fourth quarter of 2005 through the third quarter of 2006 are reflected in our financial statements for the year ended December 31, 2006. We received \$933,478 in royalties from Hextend sales during 2006. This represents an increase of 49% from \$626,135 in royalties from Hextend sales in 2005. The amount received during 2005 included \$62,272 received from Hospira to preserve certain rights under their license. Although hospital sales increased in 2006, the largest contributing factor to the increase in royalties from 2005 was an increase in large volume orders by the U.S. Armed Forces in the second half of 2006. Hextend is part of the Tactical Combat Casualty Care protocol and has been purchased by the U.S. Armed Forces through intermittent large volume orders.

Royalties of \$199,264 on sales that occurred during the fourth quarter of 2006 will be reflected in our financial statements for the first quarter of 2007.

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. We believe that as Hextend use proliferates within the leading U.S. hospitals, other smaller hospitals will follow their lead, contributing to sales growth.

During the years ended December 31, 2006 and 2005 we received \$500,000 and \$600,000, respectively, from Summit for the right to co-develop Hextend and PentaLyte in Japan, China, and Taiwan. A portion of the cash payments will be a partial reimbursement of BioTime's development costs of Hextend and a portion will be a partial reimbursement of BioTime's development costs of PentaLyte. These payments have not been recognized as revenues. Instead the \$500,000 received in 2006 is reflected on our balance sheet as deferred revenue and the \$600,000 is reflected on our balance sheet as a royalty obligation. In June 2005, we paid Summit a one-time fee of \$130,000 for Summit's services in preparing a product development plan. In addition, we received approximately \$237,356 from Summit in October 2005 as our 40% share of a sublicense fee payment made by Maruishi to Summit. See Note 4 to financial statements for further discussion of the appropriate accounting.

The following graph illustrates the increase in our annual revenues from royalties and license fees for the years indicated. For the years 2001 and 2002, revenues consist of payments received from Hospira. For 2003 through 2006, revenues include payments received from Hospira and the amortized portion of license fees and royalties from CJ Corp and Summit. For the years 2004 through 2006, revenues also include income from our NIH grant. Only \$70,478 and \$7,417 of the payments we received from Summit during 2005 and 2006, respectively, have been recognized as revenues for financial reporting purposes.



We have completed the patient enrollment and treatment portion of a Phase II clinical trial of PentaLyte in which PentaLyte is being used to treat hypovolemia in cardiac surgery, and we are presently analyzing the results of the trial. Our ability to commence and complete additional clinical studies of PentaLyte depends on our cash resources and the costs involved, which are not presently determinable. Clinical trials of PentaLyte in the United States may take longer and may be more costly than the Hextend clinical trials, which cost approximately \$3,000,000. The FDA permitted us to proceed directly into a Phase III clinical trial of Hextend involving only 120 patients because the active ingredients in Hextend had already been approved for use in plasma expanders by the FDA in other products. Because PentaLyte contains a starch (pentastarch) that has not been approved by the FDA for use in a plasma volume expander (although pentastarch is approved in the US for use in certain intravenous solutions used to collect certain blood cell fractions), we had to complete Phase I and Phase II clinical trial of PentaLyte. A subsequent Phase III trial may involve more patients than the Hextend trials, and we do not know yet the actual scope or cost of the clinical trials that the FDA will require for PentaLyte or the other products we are developing.

If Hospira obtains a license to manufacture and market PentaLyte under our License Agreement with them, they would reimburse us for our direct costs incurred in developing PentaLyte. Hospira's decision whether to license PentaLyte would follow their evaluation of the results of our Phase II trial. We submitted a report of those results to Hospira during April 2007. Although Hospira has expressed its continued interest in PentaLyte, there is no assurance that they will choose to obtain a license. If Hospira declines to license PentaLyte, we would need to find a different licensee to manufacture and market PentaLyte in the United States and Canada. Regardless of whether we license PentaLyte to Hospira, we will seek licensing arrangements for PentaLyte in Europe.

Plasma volume expanders containing pentastarch have been approved for use in certain foreign countries including Canada, certain European Union countries, and Japan. The regulatory agencies in those countries may be more willing to accept applications for regulatory approval of PentaLyte based upon clinical trials smaller in scope than those that may be required by the FDA. This would permit us to bring PentaLyte to market overseas more quickly than in the United States, provided that suitable licensing arrangements can be made with multinational or foreign pharmaceutical companies to obtain financing for clinical trials and manufacturing and marketing arrangements.

We are also continuing to develop solutions for low temperature surgery. Once a sufficient amount of data from successful low temperature surgery has been compiled, we plan to seek permission to use Hextend as a complete replacement for blood under near-freezing conditions. We currently plan to market Hextend for complete blood volume replacement at very low temperatures under the registered trademark "HetaCool®" after FDA approval is obtained.

We have been awarded a \$299,990 research grant by the NIH for use in the development of HetaCool. We are using the grant to fund a project entitled "Resuscitating Blood-Substituted Hypothermic Dogs" at the Texas Heart Institute in Houston under the guidance of Dr. George V. Letsou. Dr. Letsou is Associate Professor of Surgery and Director of the Heart Failure Center at the University of Texas Medical School in Houston, Texas. We were granted \$149,994 for the project during 2004 and \$149,996 during 2005. We have received \$240,251 of the grant funds through December 31, 2006. In 2007, the time period for drawing down the remainder of the grant funds was extended for another year, running through March 31, 2008.

BioTime scientists believe the HetaCool program has the potential to produce a product that could be used in very high fluid volumes (50 liters or more per procedure if HetaCool were used as a multi-organ donor preservation solution or to temporarily replace substantially all of the patient's circulating blood volume) in cardiovascular surgery, trauma treatment, and organ transplantation. However, the cost and time to complete the development of HetaCool, including clinical trials, cannot presently be determined.

We will depend upon royalties from the sale of Hextend by Hospira and CJ as our principal source of revenues for the foreseeable future. Those royalty revenues will be supplemented by license fees as we enter into new commercial license agreements for our products.

The amount and pace of research and development work that we can do or sponsor, and our ability to commence and complete clinical trials required to obtain FDA and foreign regulatory approval of products, depends upon the amount of money we have. Future research and clinical

study costs are not presently determinable due to many factors, including the inherent uncertainty of these costs and the uncertainty as to timing, source, and amount of capital that will become available for these projects. We have already curtailed the pace of our product development efforts due to the limited amount of funds available, and we may have to postpone further laboratory and clinical studies, unless our cash resources increase through growth in revenues, the completion of licensing agreements, additional equity investment, borrowing or third party sponsorship.

Because our research and development expenses, clinical trial expenses, and production and marketing expenses will be charged against earnings for financial reporting purposes, management expects that there will be losses from operations in the near term.

## **Results of Operations**

### *Year Ended December 31, 2006 and Year Ended December 31, 2005*

For the year ended December 31, 2006, we recognized \$933,478 of royalty revenues, compared with \$626,135 recognized for the year ended December 31, 2005. This 49% increase in royalties is attributable to an increase in product sales by Hospira. Although hospital sales increased in 2006, the largest contributing factor to the increase in royalties from 2005 was an increase in large volume orders by the U.S. Armed Forces in the second half of 2006. The Armed Forces purchase Hextend through intermittent, large volume orders, which makes it difficult to predict sales to them in subsequent periods.

Under our License Agreement, Hospira reports sales of Hextend and pays us the royalties and license fees due on account of such sales within 90 days 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, as we do not have sufficient sales history to accurately predict quarterly sales. For example, royalties on sales made during the fourth quarter of 2006 will not be recognized until the first quarter of fiscal year 2007.

We recognized \$172,371 and \$113,039 of license fees from CJ and Summit during 2006 and 2005, respectively. Full recognition of license fees has been deferred, as the completion of the development of PentaLyte, including final FDA approval, remains uncertain. Revenue is recognized over the life of the contract, which has been estimated to be approximately eight years based on the current expected life of the governing patent covering our products in Korea and Japan.

We have been awarded a \$299,990 research grant by the NIH for use in the development of HetaCool. We were granted \$149,994 for the project during 2004 and \$149,996 during 2005. We have received \$240,251 of the grant funds through December 31, 2006. In 2007, the time period for drawing down the remainder of the grant funds was extended for another year, running through March 31, 2008.

Research and development expenses decreased to \$1,422,257 for the year ended December 31, 2006, from \$1,525,686 for the year ended December 31, 2005. The decrease is chiefly attributable to a decrease of approximately \$122,000 in outside research for Phase II trials of PentaLyte and a decrease of approximately \$40,000 in consultants and lab expenses. This decrease is partially offset by the adoption of Statement of Financial Accounting Standards ("SFAS") No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123(R)") which resulted in stock-based research and

development expense of approximately \$27,000 for 2006. Additionally, salary expense increased approximately \$43,000 due to the discontinuation of voluntary pay cuts by BioTime employees as part of a cost cutting plan that had been in effect for half of 2005. Research and development expenses include laboratory study expenses, salaries, preparation of regulatory applications for our products, manufacturing of solution for trials, and consultants' fees.

General and administrative expenses increased to \$1,491,622 for the year ended December 31, 2006 from \$1,395,925 for the year ended December 31, 2005. This change reflects an increase of approximately \$120,000 in general and administrative salary expense due to the end of a voluntary salary reduction plan that had been in effect for half of 2005, and approximately \$87,000 charged to general and administrative stock-based compensation in accordance with adoption of SFAS 123(R). The increase was offset by a decrease in general and administrative consulting fees of approximately \$37,000, a decrease in legal and accounting expenses of approximately \$57,000, and a decrease in office expenses of approximately \$23,000. General and administrative expenses include salaries allocated to general and administrative accounts, scientific consulting fees, expenditures for patent costs, trademark expenses, insurance costs allocated to general and administrative expenses, stock exchange-related costs, depreciation expense, shipping expenses, marketing costs, and other miscellaneous expenses.

Our interest expense increased by \$77,557 during 2006 due to imputed interest on our royalty obligation.

For the year ended December 31, 2006, other income increased to \$44,357 from \$23,138 for the year ended December 31, 2005. The difference is chiefly attributable to an increase in interest income of \$20,354.

#### *Taxes*

At December 31, 2006 we had a cumulative net operating loss carryforward of approximately \$44,700,000 for federal income tax purposes. Our effective tax rate differs from the statutory rate because we have recorded a 100% valuation allowance against our deferred tax assets, as we do not consider realization to be more likely than not.

#### **Liquidity and Capital Resources**

During 2006 we received approximately \$1,560,000 of cash in our operations. Our sources of that cash were: approximately \$930,000 of royalty revenues from Hospira; approximately \$60,000 of NIH grant money; a net total of \$500,000 from Summit; \$20,000 from CJ; and \$50,000 in other income. During the same period our total research and development expenditures were approximately \$1,420,000 and our administrative expenditures were approximately \$1,490,000. We had no contractual obligations as of December 31, 2006, with the exception of a fixed, non-cancelable operating lease on our office and laboratory facilities in Emeryville, California. Under this lease, we are committed to make payments of \$10,802 per month, increasing 3% annually, plus our pro rata share of operating costs for the building and office complex, through May 31, 2010.

At December 31, 2006 we had \$561,017 of cash on hand and a \$500,000 line of credit. At our projected rate of spending, which includes possible spending cuts, our cash on hand, anticipated

royalties from the sale of Hextend, licensing fees, and our available revolving line of credit will allow us to operate through September 30, 2007.

We will need to obtain additional equity capital or licensing fees during 2007 to finance our current operations because our current line of credit and our royalty revenues are not sufficient to fund our operating expenses operations beyond September 30, 2007.

During April 2007 we submitted to Hospira a report of the results of our Phase II clinical study of PentaLyte. Although Hospira has expressed its continued interest in PentaLyte, there is no assurance that they will choose to obtain a license. If Hospira declines to license PentaLyte, we would need to find a different licensee to manufacture and market PentaLyte in the United States and Canada. Regardless of whether we license PentaLyte to Hospira, we will seek licensing arrangements for PentaLyte in Europe.

Since inception, we have primarily financed our operations through the sale of equity securities, licensing fees, royalties on product sales by our licensees, and borrowings. The amount of license fees and royalties that may be earned through the licensing and sale of our products and technology, the timing of the receipt of license fee payments, and the future availability and terms of equity financing, are uncertain. The unavailability or inadequacy of financing or revenues to meet future capital needs could force us to modify, curtail, delay or suspend some or all aspects of our planned operations. Sales of additional equity securities could result in the dilution of the interests of present shareholders.

In April 2006, we entered into a Revolving Line of Credit Agreement (the "Credit Agreement") with Alfred D. Kingsley, Cyndel & Co., Inc., and George Karfunkel, investors in BioTime, under which we may borrow up to \$500,000 for working capital purposes at an interest rate of 10% per annum. The maturity date of the Credit Agreement is the earlier of (i) October 31, 2007 and (ii) such date on which the we shall have received an aggregate of \$600,000 through (A) the sale of capital stock, (B) the collection of license fees, signing fees, milestone fees, or similar fees in excess of \$1,000,000 under any present or future agreement pursuant to which we grant one or more licenses to use our patents or technology, (C) funds borrowed from other lenders, (D) any combination of sources under clauses (A) through (C). Under the Credit Agreement, we will prepay, and the credit line will be reduced by, any funds received prior to the maturity date from those sources discussed above. In consideration for making the line of credit available, we issued to the investors a total of 99,999 common shares. The line of credit is collateralized by a security interest in our right to receive royalty and other payments under our license agreement with Hospira. The market value of BioTime common stock was \$0.38 per common share on April 12, 2006, valuing the shares at \$38,000.

During January 2004, we completed a rights offer that began during 2003 (the "2003 Rights Offer") through which we raised gross proceeds of \$4,184,420 through the sale of 2,560,303 common shares and 1,280,073 warrants. Following the completion of the 2003 Rights Offer, we raised an additional \$600,000 by selling an additional 428,571 common shares and 214,284 warrants under a Standby Purchase Agreement. During February 2004, we eliminated \$3,350,000 of debenture indebtedness by using a portion of the proceeds of the 2003 Rights Offer to repay \$1,850,000 of debentures in cash, and by issuing a total of 1,071,428 common shares and 535,712 common share purchase warrants in exchange for \$1,500,000 of debentures held by certain persons who acted as Participating Debenture Holders under the Standby Purchase Agreement. During December 2005, we completed a new subscription rights offer under which we raised gross proceeds of \$1,787,144 through the sale of 4,467,862 common shares and warrants (the "2005 Rights Offer"). See Note 5 to the financial statements.

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of  
BioTime, Inc.

We have audited the accompanying balance sheet of BioTime, Inc. (the "Company") as of December 31, 2006, and the related statement of operations, shareholders' equity (deficit), and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of BioTime, Inc. as of December 31, 2006, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has \$3,044 in working capital, shareholders' deficit of \$1,865,221 and an accumulated deficit of \$42,406,271. These conditions, among others, raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Rothstein, Kass & Company, P.C.

Roseland, New Jersey  
March 8, 2007

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders  
BioTime, Inc.  
Berkeley, California

We have audited the accompanying statements of operations, shareholders' equity (deficit), and cash flows for the year ended December 31, 2005 of BioTime, Inc. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the results of BioTime, Inc.'s operations and its cash flows for the year ended December 31, 2005 in conformity with accounting principles generally accepted in the United States of America.

/s/ BDO Seidman, LLP

San Francisco, California

March 31, 2006, except for Note 3, which is as of April 13, 2006.

**Item 7. Financial Statements****BIOTIME, INC.****BALANCE SHEET**

	December 31, 2006
<b>ASSETS</b>	
<b>CURRENT ASSETS</b>	
Cash and cash equivalents	\$ 561,017
Prepaid expenses and other current assets	57,675
Total current assets	618,692
EQUIPMENT, net of accumulated depreciation of \$580,933	10,839
DEPOSITS AND OTHER ASSETS	20,976
<b>TOTAL ASSETS</b>	<b>\$ 650,507</b>
<b>LIABILITIES AND SHAREHOLDERS' DEFICIT</b>	
<b>CURRENT LIABILITIES</b>	
Accounts payable and accrued liabilities	\$ 431,713
Deferred license revenue, current portion	183,935
Total current liabilities	615,648
DEFERRED LICENSE REVENUE, net of current portion	1,258,205
ROYALTY OBLIGATION	631,757
DEFERRED RENT	10,118
Total long-term liabilities	1,900,080
<b>COMMITMENTS AND CONTINGENCIES</b>	
<b>SHAREHOLDERS' DEFICIT:</b>	
Common Shares, no par value, authorized 50,000,000 shares; issued and outstanding 22,574,374 shares	40,447,078
Contributed capital	93,972
Accumulated deficit	(42,406,271)
Total shareholders' deficit	(1,865,221)
<b>TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIT</b>	<b>\$ 650,507</b>

See notes to financial statements.



**BIOTIME, INC.****STATEMENTS OF OPERATIONS**

	Year Ended December 31,	
	2006	2005
<b>REVENUE:</b>		
License fees	\$ 172,371	\$ 113,039
Royalty from product sales	933,478	626,135
Grant income	56,166	164,026
Total revenue	1,162,015	903,200
<b>EXPENSES:</b>		
Research and development	(1,422,257)	(1,525,686)
General and administrative	(1,491,622)	(1,395,925)
Total expenses	(2,913,879)	(2,921,611)
Loss from operations	(1,751,864)	(2,018,411)
<b>INTEREST EXPENSE AND OTHER INCOME:</b>		
Interest and other expense	(157,114)	(78,978)
Other income	44,357	23,138
Total interest expense and other income	(112,757)	(55,840)
<b>NET LOSS</b>	<b>\$ (1,864,621)</b>	<b>\$ (2,074,251)</b>
<b>BASIC AND DILUTED LOSS PER COMMON SHARE</b>	<b>\$ (0.08)</b>	<b>\$ (0.12)</b>
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:</b>		
<b>BASIC AND DILUTED</b>	<b>22,538,003</b>	<b>17,903,230</b>

See notes to financial statements.

**BIOTIME, INC.****STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIT)**

	Common Shares				Total Shareholders' Equity (Deficit)
	Number of Shares	Amount	Contributed Capital	Accumulated Deficit	
BALANCE AT JANUARY 1, 2005	17,811,450	\$ 38,718,197	\$ 93,972	\$ (38,467,399)	\$ 344,770
Common shares and warrants issued in Rights Offer, net of issuance cost of \$379,984	4,467,862	1,407,160	—	—	1,407,160
Common shares issued for services	60,000	84,200	—	—	84,200
Options granted for services	—	41,540	—	—	41,540
NET LOSS	—	—	—	(2,074,251)	(2,074,251)
BALANCE AT DECEMBER 31, 2005	22,339,312	40,251,097	93,972	(40,541,650)	(196,581)
Common shares issued for line of credit	99,999	37,999	—	—	37,999
Shares granted for services	135,000	43,876	—	—	43,876
Exercise of warrants	63	126	—	—	126
Options granted under FASB 123(R)	—	113,980	—	—	113,980
NET LOSS	—	—	—	(1,864,621)	(1,864,621)
BALANCE AT DECEMBER 31, 2006	22,574,374	\$ 40,447,078	\$ 93,972	\$ (42,406,271)	\$ (1,865,221)

See notes to financial statements.

**BIOTIME, INC.****STATEMENTS OF CASH FLOWS**

	Year Ended December 31,	
	2006	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (1,864,621)	\$ (2,074,251)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	6,003	6,374
Amortization of line of credit costs	20,508	—
Stock-based compensation	167,643	89,178
Interest on royalty obligation	138,813	78,978
Changes in operating assets and liabilities:		
Prepaid expenses and other current assets	(5,227)	24,368
Deposits and other assets	62,899	(4,926)
Accounts payable and accrued liabilities	(144,670)	327,900
Deferred revenue	350,854	133,692
Deferred rent	5,579	4,539
Net cash used in operating activities	(1,262,219)	(1,414,148)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Cash used in investing activities, purchase of property	(10,664)	—
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Cash received from licensee for royalty obligation	—	600,000
Cash paid to licensee on royalty obligation	—	(130,000)
Issuance of common shares and warrants for cash	126	1,787,144
Common share placement costs	—	(379,984)
Net cash provided by financing activities	126	1,877,160
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(1,272,757)</b>	<b>463,012</b>
<b>CASH AND CASH EQUIVALENTS:</b>		
At beginning of year	1,833,774	1,370,762
At end of year	\$ 561,017	\$ 1,833,774
<b>SUPPLEMENTAL SCHEDULE OF NONCASH FINANCING AND INVESTING ACTIVITIES :</b>		
Decrease in royalty obligation due to third party payment	\$ —	\$ 356,000
Issuance of Warrants to Guarantors for participation in the Rights Offer	\$ —	\$ 30,000
Extension of existing warrant terms	\$ —	\$ 152,812

See notes to financial statements.

**BIOTIME, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**1. Organization**

*General* - BioTime, Inc. was organized November 30, 1990 as a California corporation. BioTime is a biomedical organization engaged in the development of synthetic plasma expanders, blood volume substitute solutions, and organ preservation solutions, for use in surgery, trauma care, organ transplant procedures, and other areas of medicine.

*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 BioTime's products; BioTime's ability to obtain United States Food and Drug Administration and foreign regulatory approval to market its products; competition from products manufactured and sold or being developed by other companies; the price of and demand for BioTime products; BioTime's 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 BioTime's products; and the availability of reimbursement for the cost of BioTime's products (and related treatment) from government health administration authorities, private health coverage insurers and other organizations.

*Liquidity and Going Concern* - At December 31, 2006, BioTime had \$561,017 of cash on hand and working capital of \$3,044, a shareholders' deficit of \$1,865,221, and an accumulated deficit of \$42,406,271. BioTime will continue to need additional capital and greater revenues to continue its current operations and to continue to conduct its product development and research programs. Sales of additional equity securities could result in the dilution of the interests of present shareholders. BioTime is also continuing to seek new agreements with pharmaceutical companies to provide product and technology licensing fees and royalties. The availability and terms of equity financing and new license agreements are uncertain. The unavailability or inadequacy of additional financing or future revenues to meet capital needs could force BioTime to modify, curtail, delay or suspend some or all aspects of its planned operations. To mitigate these factors, management has also devised a cost-cutting contingency plan to be instituted if necessary. The principal components of this plan are reductions in the salaries of existing personnel and in discretionary general and administrative expenses such as public relations. As a result, management believes that at BioTime's projected rate of spending, which may include spending cuts, cash on hand, anticipated royalties from the sale of Hextend, licensing fees, and the available revolving line of credit (see Note 3) will allow BioTime to operate through September 30, 2007. BioTime will continue to seek additional financing or capital as well as additional licensing revenues from its current and future patents. In view of the matters described above, BioTime's continued operations are dependent on its ability to raise additional capital, obtain additional financing and or succeed in its operations. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities should the company be unable to continue as a going concern.

## 2. Summary of Significant Accounting Policies

*Financial Statement Estimates* - The preparation of 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

*Revenue recognition* - BioTime complies with the Securities and Exchange Commission's (SEC) Staff Accounting Bulletin ("SAB") No. 101, Revenue Recognition, as amended by SAB No. 104. 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 report is received rather than the quarter in which the sales took place, as it does not have sufficient sales history to accurately predict quarterly sales. Up-front nonrefundable fees where BioTime has no continuing performance obligations are recognized as revenues when collection is reasonably assured. In situations where continuing performance obligations exist, up-front nonrefundable 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. Milestones, 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.

BioTime also defers costs, including finders' fees, which are directly related to license agreements for which revenue has been deferred. Deferred costs are charged to expense proportionally and over the same period that related deferred revenue is recognized as revenue. Deferred costs are net against deferred revenues in BioTime's balance sheet.

Grant income is recognized as revenue when earned.

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

*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, at times, exceed federally issued limits; 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 thirty-six to eighty-four months.

*Patent costs* - Patent costs associated with obtaining patents on products being developed are expensed as general and administrative expenses when incurred. These costs totaled \$126,618 and \$82,058, for the years ended December 31, 2006 and 2005, respectively.

*Research and development* - BioTime complies with the accounting requirements of Statement of Financial Accounting Standards (“SFAS”) No.2, Accounting for Research and Development Costs. Research and development costs are expensed when incurred and consist principally of salaries, payroll taxes, research and laboratory fees, hospital and consultant fees related to clinical trials, and BioTime’s PentaLyte solution for use in human clinical trials.

*Income Taxes* - BioTime accounts for income taxes in accordance with SFAS No. 109, Accounting for Income Taxes, which prescribes 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.

*Stock-based Compensation* - On January 1, 2006, BioTime adopted SFAS No. 123 (revised 2004), “Share-Based Payment” (“SFAS 123(R)”) which requires 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. SFAS 123(R) supersedes BioTime's previous accounting using the intrinsic value method under Accounting Principles Board Opinion (“APB”) No. 25, “Accounting for Stock Issued to Employees” for periods beginning in fiscal 2006. In March 2005, the SEC issued SAB No. 107, “Valuation of Share-Based Payment Arrangements for Public Companies”, which provides supplemental implementation guidance for SFAS 123(R). BioTime has applied the provisions of SAB 107 in its adoption of SFAS 123(R). Upon adoption of SFAS 123 (R), BioTime has continued to utilize the Black-Scholes Merton option pricing model which was previously used for BioTime's proforma disclosures under SFAS 123. BioTime's determination of fair value of share-based payment awards on the date of grant using an option-pricing model is affected by BioTime's stock price as well as 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 the projected employee stock options 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 U.S Treasury rates in effect during the corresponding period of grant. Because changes in the subjective assumptions can materially affect the estimated value, in management's opinion, the existing valuation models may not provide an accurate measure of the fair value of BioTime's employee stock options. Although the fair value of employee stock options is determined in accordance with SFAS 123(R) and SAB 107 using an option-pricing model, that value may not be indicative of the fair value observed in a willing buyer/willing seller market transaction.

*Loss per share* - BioTime complies with the accounting and reporting requirements of SFAS No. 128, “Earnings Per Share.” Basic net loss per share is computed by dividing net loss available to common stockholders by the weighted-average common shares outstanding for the period. Diluted net loss per share reflects the weighted-average common shares outstanding plus the potential effect of dilutive securities or contracts which are convertible to common shares such as options, warrants, convertible debt, and preferred stock (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 years ended December 31, 2006 and 2005 excludes any effect from 1,811,664 options and 7,943,314 warrants; 1,477,164 options and 8,220,972 warrants,, respectively, as their inclusion would be antidilutive.

*Fair value of financial instruments* - The carrying amount of BioTime's financial instruments, consisting of cash, accounts receivable, and short-term payables, approximates their fair value due to their short-term maturity.

*Reclassification* - Certain prior year amounts have been reclassified to conform to the current year presentation.

*Recently issued accounting standards* - In July 2006, the Financial Accounting Standards Board issued Interpretation (FIN) No. 48, "Accounting for Uncertainty in Income Taxes" (FIN 48). FIN 48 creates a single accounting and disclosure model for uncertain tax positions, provides guidance on the minimum threshold that a tax uncertainty is required to meet before it can be recognized in the financial statements and applies to all tax positions taken by a company; both those deemed to be routine as well as those for which there may be a high degree of uncertainty.

FIN 48 establishes a two-step approach for evaluating tax positions. The first step, recognition, occurs when a company concludes (based solely on the technical aspects of the tax matter) that a tax position is more likely than not to be sustained on examination by a taxing authority. The second step, measurement, is only considered after step one has been satisfied and measures any tax benefit at the largest amount that is deemed more likely than not to be realized upon ultimate settlement of the uncertainty. Tax positions that fail to qualify for initial recognition are recognized in the first subsequent interim period that they meet the more likely than not standard, when they are resolved through negotiation or litigation with the taxing authority or upon the expiration of the statute of limitations. Derecognition of a tax position previously recognized would occur when a company subsequently concludes that a tax position no longer meets the more likely than not threshold of being sustained. FIN 48 also significantly expands the financial statement disclosure requirements relating to uncertain tax positions. FIN 48 is effective for fiscal years beginning after December 15, 2006. Differences between the amounts recognized in the balance sheet prior to adoption and the amounts recognized in the balance sheet after adoption will be accounted for as a cumulative effect adjustment to the beginning balance of retained earnings. BioTime does not believe that the adoption of FIN 48 will have a material effect on its financial statements.

In September 2006, the Financial Accounting Standards Board (the "FASB") issued SFAS No. 157, "Fair Value Measurements" (SFAS No. 157), which defines fair value, establishes a framework for measuring fair value and requires additional disclosures about fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. BioTime is currently evaluating the effect, if any, the adoption of SFAS No. 157 will have on its financial statements.

In February 2007, the FASB issued SFAS 159, "The Fair Value Option for Financial Assets and Financial Liabilities". SFAS 159 permits entities to choose to measure many financial instruments, and certain other items, at fair value. SFAS 159 applies to reporting periods beginning after November 15, 2007. BioTime is currently evaluating the effect, if any, that the adoption of SFAS 159 will have on its financial statements.

### **3. Lines of Credit**

In March 2006, BioTime entered into a Revolving Line of Credit Agreement (the "Credit Agreement") with Alfred D. Kingsley, Cyndel & Co., Inc., and George Karfunkel, investors in BioTime, under which BioTime may borrow up to \$500,000 for working capital purposes at an interest rate of 10% per annum. The credit line will expire, and any funds borrowed, plus accrued interest, must be repaid, on the earlier of October 31, 2007 or when BioTime receives \$600,000 in new funding through the sale of capital stock, the receipt of licensing and similar fees in excess of \$1,000,000, from other borrowing, or any combination of those sources. Under the Credit Agreement, BioTime will prepay, and the credit line will be reduced by, any funds received prior to the maturity date from those sources. In consideration for making the line of credit available, BioTime issued to the investors a total of 99,999 common shares. The line of credit is collateralized by a security interest in BioTime's right to receive royalty and other payments under the license agreement with Hospira.

BioTime also obtained a line of credit from American Express in August 2004, which allows for borrowings up to \$43,600; no funds have yet been drawn from this line of credit. Should any such money be drawn, interest will be payable on borrowings at a total rate equal to the prime rate plus 3.99%; however, regardless of the prime rate, the interest rate payable will at no time be less than 9.49%.

BioTime also secured a line of credit from Advanta in November 2006, which allows for borrowings up to \$30,000; no funds have yet been drawn from this line of credit. Should any such money be drawn, interest will be payable on borrowings at a Variable Rate Index, which will at no time be less than 8.25%.

### **4. Royalty Obligation**

In December 2004, BioTime entered into an agreement with Summit Pharmaceuticals International Corporation ("Summit") to co-develop Hextend and PentaLyte for the Japanese market. Under the agreement, BioTime received \$300,000 in December 2004, \$450,000 in April 2005, and \$150,000 in October 2005. The payments represent a partial reimbursement of BioTime's development cost of Hextend and PentaLyte. In June 2005, following BioTime's approval of Summit's business plan for Hextend, BioTime paid to Summit a one-time fee of \$130,000 for their services in preparing the plan. The agreement states that revenues from Hextend and PentaLyte in Japan will be shared between BioTime and Summit as follows: BioTime 40% and Summit 60%. Additionally, BioTime will pay Summit 8% of all net royalties received from the sale of PentaLyte in the United States.

The accounting treatment of the payments from Summit falls under the guidance of Emerging Issues Task Force ("EITF") Issue No. 88-18, "Sales of Future Revenues." EITF 88-18 addresses the accounting treatment when an enterprise (BioTime) receives cash from an investor (Summit) and agrees to pay to the investor a specified percentage or amount of the revenue or a measure of income of a particular product line, business segment, trademark, patent, or contractual right. The Emerging Issues Task Force reached a consensus on six independent factors that would require reclassification of the proceeds as debt. BioTime meets one of the factors whereby BioTime has significant continuing involvement in the generation of the cash flows due to the investor. As a result, BioTime initially recorded the net proceeds from Summit to date of \$770,000 as long-term debt to comply



with EITF 88-18 even though BioTime is not legally indebted to Summit for that amount.

In July 2005, Summit sublicensed the rights to Hextend in Japan to Maruishi. In consideration for the license, Maruishi agreed to pay Summit a series of milestone payments: Yen 70,000,000, (or \$593,390 based on foreign currency conversion rates at the time) upon executing the agreement, and Yen 100,000,000 upon regulatory filing in Japan, and Yen 100,000,000 upon regulatory approval of Hextend in Japan. Consistent with the terms of the BioTime and Summit agreement, Summit paid 40% of that amount, or \$237,356, to BioTime during October 2005. BioTime does not expect the regulatory filing and approval milestones to be attained for several years.

The initial accounting viewed the potential repayment of the \$770,000 imputed debt to come only from the 8% share of US PentaLyte revenues generated by BioTime and paid to Summit. BioTime first became aware of the terms of the Maruishi and Summit agreement during the fourth quarter of 2005, prepared an estimate of the future cash flows, and determined that Summit will earn a majority of their return on investment from their agreement with Maruishi, and not the 8% of BioTime's U.S. PentaLyte sales. Considering this, the \$770,000 is viewed as a royalty obligation which will be reduced by Summit's 8% share of BioTime's U.S. PentaLyte sales plus Summit's 60% share of Japanese revenue. Accordingly, BioTime recorded the entire amount paid by Maruishi to Summit for the sublicense of \$593,390 as deferred revenue, to be amortized over the remaining life of the patent through 2019. BioTime's 40% share of this payment was collected in October 2005 and the remaining 60% share was recorded as a reduction of the long-term royalty obligation of BioTime to Summit. The balance of the license fees received by BioTime is still being treated as a long-term royalty obligation for financial accounting purposes under EITF 88-18. Interest on the long-term royalty obligation is accrued monthly using the effective interest method beginning October 2005, using a rate of 25.2% per annum, which BioTime has determined is the appropriate interest rate when the future cash flows from the transaction are considered. Prior to October 2005, BioTime was accruing interest at a rate of 12% based upon its incremental borrowing rate as the effective interest rate derived from future "deemed payments" could not be reasonably estimated. The effective interest rate will be evaluated annually, or when events occur that have significantly affected the estimate of future cash flows. BioTime has recorded \$132,960 and \$78,978 of interest expense on the long-term royalty obligation for 2006 and 2005, respectively.

## **5. Shareholders' Deficit**

During December 2005, BioTime completed a subscription rights offer (the "2005 Rights Offer") through which BioTime raised gross proceeds of \$1,787,144 through the sale of 4,467,862 common shares and 4,467,862 warrants. The common shares and warrants were sold as "units" consisting of one common share and one warrant for \$0.40 per unit. Each warrant entitles the holder to purchase one common share for \$2.00 per share and will expire on October 31, 2010. BioTime may redeem the warrants by paying \$.05 per warrant if the closing price of the common shares on any national securities exchange or the Nasdaq Stock Market exceeds 200% of the exercise price of the warrants for any 20 consecutive trading days.

Certain persons acted as guarantors of the 2005 Rights Offer under a Standby Purchase Agreement pursuant to which they agreed to purchase up to 4,467,862 units if the subscription rights were not fully exercised. In consideration for their agreement, BioTime paid the guarantors \$132,000 in cash and issued to them warrants to purchase 600,000 common shares, which were accounted for as costs

of the equity financing. The \$132,000 was included in accounts payable and accrued expenses as of December 31, 2005. Total cash costs for the 2005 Rights Offer, which were recorded as a reduction of the proceeds received, were \$379,984. The warrants issued to the guarantors have the same terms as the warrants BioTime sold in the 2005 Rights Offer. The market price of all warrants issued in the 2005 Rights Offer was \$0.05 on the closing date.

During April 1998, BioTime entered into a financial advisory services agreement with Greenbelt, Corp., a corporation controlled by Alfred D. Kingsley and Gary K. Duberstein, who are also shareholders of BioTime. BioTime agreed to indemnify Greenbelt and its officers, affiliates, employees, agents, assignees, and controlling person from any liabilities arising out of or in connection with actions taken on BioTime's behalf under the agreement. The agreement has been renewed each year and will expire on March 31, 2007. BioTime agreed to issue Greenbelt \$90,000 in cash and 60,000 common shares for the twelve months ending March 31, 2005, \$45,000 cash and 135,000 common shares for the twelve months ending March 31, 2006 and \$90,000 cash and 200,000 common shares for the twelve months ending March 31, 2007. Of the final period's fees, 150,000 Common Shares were issued on January 2, 2007, the balance of the shares is due to be issued, on April 3, 2007. The cash fee is payable as follows: \$30,000 on January 2, 2007, \$30,000 on April 2, 2007, and \$30,000 on October 1, 2007; provided, that BioTime may defer either or both of the cash payments that would otherwise be due on January 2, 2007 and April 2, 2007 until a date that BioTime may determine, but not later than October 1, 2007. The agreement with Greenbelt states that in return for allowing such a deferral, Greenbelt will be issued an additional 30,000 shares by BioTime. To date, BioTime has deferred both the January 2, 2007 payment and the April 2, 2007 payment, thereby necessitating issuance of 60,000 additional shares to Greenbelt.

Activity related to the Greenbelt agreement is presented in the table below:

	Balance included in	Add:	Add:	Less:	Less:	Balance included in
	Accounts Payable at	Cash-based expense	Stock-based expense	Cash payments	Value of stock-based payments	Accounts Payable at
	January 1	accrued	accrued			December 31,
2006	\$65,138	\$78,750	\$52,987	\$(45,000)	\$(43,875)	\$108,000
2005	\$112,950	\$56,250	\$47,638	\$(67,500)	\$(84,200)	\$65,138

In August 2005, BioTime issued to outside consultants fully vested options to purchase 100,000 common shares. Expense of \$41,540 for these options was recorded in general and administrative expense for the year ended December 31, 2005. The fair value of these options was determined using the Black-Scholes options pricing model with the following assumptions: contractual life of five years; risk free interest rate of 4.28%; volatility of 83.55%; and no dividends.

BioTime, as part of rights offerings and other agreements, has issued warrants to purchase its common stock. Activity related to warrants in 2006 and 2005 is presented in the table below:

	Number of Shares	Per share warrant price	Weighted Average Exercise Price
Outstanding, January 1, 2005	3,153,191	\$ 1.47-\$8.14	\$ 2.07
Issued in 2005 with rights offer	5,067,781	2.00	2.00
Shares under warrants at December 31, 2005	8,220,972	1.47-8.14	2.03
Exercised	(63)	2.00	2.00
Expired in 2006	(277,595)	1.47-8.14	2.70
Outstanding, December 31, 2006	7,943,314	\$ 1.34-\$3.92	\$ 2.00

At December 31, 2006, 7,943,314 warrants to purchase common stock with a weighted average exercise price of \$2.00 and a weighted average remaining contractual life of 3.79 years were outstanding.

In March 2006, the board of directors approved an increase in the authorized number of common shares to 50,000,000 shares.

## 6. Stock Option Plans

During 1992, BioTime adopted the 1992 Stock Option Plan (the "1992 Plan"). Options granted under the 1992 Plan expire five to ten years from the date of grant and may be fully exercisable immediately, or may be exercisable according to a schedule or conditions specified by the Board of Directors or the Option Committee. As of December 31, 2006, options to purchase 119,500 shares had been granted and were outstanding at exercise prices ranging from \$3.00 to \$11.75 under the 1992 Plan. At December 31, 2006, no options were available for future grants under the 1992 Plan.

During 2002, BioTime adopted a new stock option plan (the "2002 Plan"). The 2002 Plan was amended during December 2004 to increase the number of shares available for the issuance of options. Under the 2002 Plan, BioTime has reserved 2,000,000 common shares for issuance under options granted to eligible persons. No options may be granted under the 2002 Plan more than ten years after the date the 2002 Plan was adopted by the Board of Directors, and no options granted under the 2002 Plan may be exercised after the expiration of ten years from the date of grant. Under the 2002 Plan, options to purchase common shares may be granted to employees, directors and certain consultants at prices not less than the fair market value at date of grant for incentive stock options and not less than 85% of fair market value for other stock options. These options expire five



to ten years from the date of grant and may be fully exercisable immediately, or may be exercisable according to a schedule or conditions specified by the Board of Directors or the Compensation Committee. The 2002 Plan also permits BioTime to sell common shares to employees subject to vesting provisions under restricted stock agreements that entitle BioTime to repurchase unvested shares at the employee's cost upon the occurrence of specified events, such as termination of employment. BioTime may permit employees or consultants, but not executive officers or directors, who purchase stock under restricted stock purchase agreements to pay for their shares by delivering a promissory note that is secured by a pledge of their shares. Under the 2002 Plan, as of December 31, 2006, BioTime had granted to certain employees, consultants, and directors, options to purchase a total of 1,592,164 common shares at exercise prices ranging from \$0.32 to \$4.00 per share; and had 407,836 options available for future grants.

On January 1, 2006, BioTime adopted SFAS 123(R), which requires the measurement and recognition for all share-based payment awards made to BioTime's employees and directors including employee stock options. The following table summarizes stock-based compensation expense related to employee and director stock options awards for the year ended December 31, 2006, which was allocated as follows:

	<b>Year Ended December 31, 2006 (under SFAS 123(R))</b>
Stock-based compensation expense:	
Research and Development	\$ 26,874
General and Administrative	87,106
Total stock-based compensation expense	\$ 113,980

The following table reflects pro forma net loss and basic and diluted loss per share for the year ended December 31, 2005, and stock-based compensation expense is calculated based on the pro forma application of SFAS No. 123:

	<b>Year ended December 31, 2005</b>
Net loss - as reported for the prior period	\$ (2,074,251)
Stock-based compensation expense related to employee stock options	(192,416)
Net loss, including the effect of stock-based compensation expense	\$ (2,266,667)
Net loss per share - as reported for the prior period Basic and diluted	\$ (0.12)
Net loss per share, including the effect of stock-based compensation expense Basic and diluted	\$ (0.13)

BioTime adopted SFAS 123(R) using the modified prospective transition method, which requires the application of the accounting standard as of January 1, 2006, the first day of BioTime's fiscal year 2006. BioTime's financial statements as of and for the year ended December 31, 2006, reflect the impact of SFAS 123(R). In accordance with the modified prospective transition method, the financial statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS 123(R). As of December 31, 2006, total unrecognized compensation costs related to unvested stock options was \$2,866, which is expected to be recognized as expense over a weighted average period of approximately 0.40 years.

For all applicable periods, the value of each employee and director stock option was estimated on the date of grant using the Black-Scholes Merton model for the purpose of the pro forma financial disclosures in accordance with SFAS 123.

The weighted-average estimated fair value of stock options granted during the years ended December 31, 2006 and 2005 was \$0.16 and \$1.86 per share, respectively, using the Black-Scholes Merton model with the following weighted-average assumptions:

	<b>Year Ended December 31, 2006</b>	<b>Year Ended December 31, 2005</b>
Expected lives in years	5	5
Risk free interest rates	4.60%	4.28%
Volatility	89%	93%
Dividend yield	0%	0%

For options granted prior to 2006 and valued in accordance with SFAS 123, the expected life and the expected volatility of the stock options were based upon historical data. Forfeitures of employee stock options were accounted for on an as-incurred basis.



*General Option Information*

A summary of all option activity for the years ended December 31, 2006 and 2005 is as follows:

	Options available for grant	Number of Shares	Weighted Average Exercise Price
Outstanding, January 1, 2005	1,213,336	1,192,164	\$ 4.00
Granted	(326,000)	326,000	1.86
Forfeited/expired	--	(41,000)	10.22
Outstanding, December 31, 2005	887,336	1,477,164	\$ 3.31
Granted	(509,500)	509,500	0.32
Forfeited/expired	30,000	(175,000)	5.51
Outstanding, December 31, 2006	407,836	1,811,164	\$ 2.20

Additional information regarding options outstanding as of December 31, 2006 is as follows:

Options Outstanding			Options Exercisable		
Range of Exercise Prices	Number Outstanding	Weighted Avg. Remaining Contractual Life (yrs)	Weighted Avg. Exercise Price	Number Exercisable	Weighted Avg. Exercise Price
\$.32-\$.34	494,500	5.77	\$0.32	494,500	\$0.32
1.00-3.00	837,664	2.58	1.95	758,664	1.94
4.00	320,000	.82	4.00	320,000	4.00
11.75	59,500	2.29	11.75	59,500	11.75
\$0.32-\$11.75	1,711,664	2.21	\$2.08	1,632,664	\$2.21

**7. Commitments and Contingencies**

BioTime occupies approximately 5,244 square feet of office and laboratory space in Heritage Square in Emeryville, California under a five year lease. BioTime moved to this facility in May 2005. Monthly rent will increase by 3% each year during the initial five year term. If BioTime exercises its option to extend the lease, then monthly rent will be set at 95% of the fair market rent at that time. In addition to rent, BioTime will pay its pro rata share of operating expenses and real estate taxes for the building in which BioTime's space is located or for the Heritage Square project as a whole, as applicable, based upon the ratio that the number of square feet rented by BioTime bears to the total number of square feet in the building or project.

Rent expenses totaled \$192,521 and \$172,140 for the years ended December 31, 2006 and 2005,



respectively. Remaining minimum annual lease payments under the lease are as follows:

Year	Minimum lease payments
2007	\$ 131,900
2008	135,857
2009	139,933
2010	59,022

*Indemnification* - Under BioTime's bylaws, BioTime has agreed to indemnify its officers and directors for certain events or occurrences arising as a result of the officer or director serving in such capacity. The term of the indemnification period is for the officer's or director's lifetime. The maximum potential amount of future payments that BioTime could be required to make under the indemnification provisions contained in BioTime's bylaws is unlimited. However, BioTime has a directors and officers liability insurance policy that limits its exposure and enables it to recover a portion of any future amounts paid. As a result of the insurance policy coverage, BioTime believes the estimated fair value of these indemnification agreements is minimal and no liabilities were recorded for these agreements as of December 31, 2006.

Under the license agreements with Hospira and CJ, BioTime will indemnify Abbott Laboratories (Hospira's predecessor), Hospira, and/or CJ for any cost or expense resulting from any third party claim or lawsuit arising from alleged patent infringement, as defined, by Abbott, Hospira, or CJ relating to actions covered by the applicable license agreement. Management believes that the possibility of payments under the indemnification clauses is remote. Therefore, BioTime has not recorded a provision for potential claims as of December 31, 2006. BioTime enters into indemnification provisions under (i) agreements with other companies in the ordinary course of business, typically with business partners, licensees, contractors, hospitals at which clinical studies are conducted, and landlords, and (ii) agreements with investors, underwriters, investment bankers, and financial advisers. Under these provisions, BioTime generally agrees to indemnify and hold harmless the indemnified party for losses suffered or incurred by the indemnified party as a result of BioTime's activities or, in some cases, as a result of the indemnified party's activities under the agreement. These indemnification provisions often include indemnifications relating to representations made by BioTime with regard to intellectual property rights. These indemnification provisions generally survive termination of the underlying agreement. In some cases, BioTime has obtained liability insurance providing coverage that limits its exposure for indemnified matters. The maximum potential amount of future payments that BioTime could be required to make under these indemnification provisions is unlimited. BioTime has not incurred material costs to defend lawsuits or settle claims related to these indemnification agreements. As a result, BioTime believes the estimated fair value of these agreements is minimal. Accordingly, BioTime has no liabilities recorded for these agreements as of December 31, 2006.

**8. Income Taxes**

The primary components of the net deferred tax asset are:

	Year Ended December 31, 2006
Deferred tax asset:	
Net operating loss carryforwards	\$16,081,000
Research & development and other credits	1,726,000
Other, net	1,023,000
Total	18,830,000
Valuation allowance (18,830,000)	
Net deferred tax asset	\$ -0-

Income taxes differed from the amounts computed by applying the U.S. federal income tax of 34% to pretax losses from operations as a result of the following:

<b>Year ending December 31,</b>	<b>2006</b>	<b>2005</b>
Computed tax benefit at federal statutory rate	34%	34%
Permanent differences, primarily nondeductible interest	(4%)	(1%)
Losses for which no benefit has been recognized	(39%)	(41%)
State tax benefit, net of effect on federal income taxes	6%	6%
Research and development and other credits	3%	2%
	0%	0%

No tax benefit has been recorded through December 31, 2006 because of the net operating losses incurred and a full valuation allowance provided. A valuation allowance is provided when it is more likely than not that some portion of the deferred tax asset will not be realized. BioTime established a 100% valuation allowance for all periods presented due to the uncertainty of realizing future tax benefits from its net operating loss carryforwards and other deferred tax assets.

As of December 31, 2006, BioTime has net operating loss carryforwards of approximately \$44,700,000 for federal and \$14,800,000 for state tax purposes, which expire through 2026. In addition, BioTime has tax credit carryforwards

for federal and state tax purposes of \$978,000 and \$748,000, respectively, which expire through 2026.

Internal Revenue Code Section 382 places a limitation (the “Section 382 Limitation”) on the amount of taxable income that can be offset by net operating loss (“NOL”) carryforwards after a change in control (generally greater than 50% change in ownership within a three-year period) of a loss corporation. California has similar rules. Generally, after a control change, a loss corporation cannot deduct NOL carryforwards in excess of the Section 382 Limitation. Due to these “change in

ownership” provisions, utilization of the NOL and tax credit carryforwards may be subject to an annual limitation regarding their utilization against taxable income in future periods.

## 9. Enterprise-wide Disclosures

### *Geographic Area Information*

Revenues, including license fees and royalties, by geographic area are based on the country of domicile of the counterparty to the agreement.

<b>Year ended</b>		<b>2006</b>	<b>2005</b>
<b>December</b>			
<b>31,</b>			
<i>Revenues</i>			
Domestic	\$	993,554	\$ 790,161
Asia		168,461	113,039
<b>T o t a l</b>	<b>\$</b>	<b>1,162,015</b>	<b>\$ 903,200</b>
<b>revenues</b>			

All of BioTime’s assets are located at its Emeryville, California facility.

### *Major Customers*

BioTime has two major customers comprising significant amounts of total revenues as follows:

<b>Year</b>	<b>2006</b>	<b>2005</b>
<b>ended</b>		
<b>December</b>		
<b>31,</b>		
<i>% of Total</i>		
<i>Revenues</i>		
<b>Hospira</b>	80%	69%
<b>CJ Corp</b>	8%	11%

## 10. Subsequent Events

On January 2, 2007, BioTime issued 150,000 shares to Greenbelt in accordance with Greenbelt's consulting agreement. BioTime elected to defer the cash payments due to be paid Greenbelt under the consulting agreement during January and April 2007. According to the terms of the agreement, BioTime will issue Greenbelt an additional 60,000 shares in consideration of the deferral.



**Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

Matters required to be reported under paragraph (a) of Item 304 of Regulation S-K have been previously reported. No matter described in paragraph (b) of Item 304 has occurred.

**Item 8A. Controls and Procedures**

*Evaluation of Disclosure Controls and Procedures*

Our management, including its principal executive officers and its principal financial officer, have reviewed and evaluated our disclosure controls and procedures as of a date within ninety (90) days of the filing date of this Form 10-KSB annual report. Following this review and evaluation, management has collectively determined that our disclosure controls and procedures are sufficient to ensure that material information relating to BioTime with respect to 2006 was made known to them.

**Item 8B. Other Information**

During January 2007, we issued 150,000 common shares, and during April 2007 we issued 110,000 common shares, to Greenbelt Corp., our financial advisor, under the terms of their financial advisory agreement. The shares issued during April 2007 included 60,000 shares issued as additional compensation under the agreement in connection with our election to defer payment of the cash fees due during January and April 2007. The issuance of these shares was exempt from registration under Section 4(2) of the Securities Exchange Act of 1933, as amended.

### **PART III**

#### **Item 9. Directors, Executive Officers, Promoters, and Control Persons; Compliance With Section 16(a) of the Exchange Act**

##### **Directors and Executive Officers**

The names and ages of the directors and executive officers of BioTime are as follows:

**Hal Sternberg, Ph.D.**, 53, is our Vice President of Research and a Member of the Office of the President, and has served on the Board of Directors since 1990. Dr. Sternberg was a visiting scientist and research Associate at the University of California at Berkeley from 1985-1988, where he supervised a team of researchers studying Alzheimer's Disease. Dr. Sternberg received his Ph.D. from the University of Maryland in Biochemistry in 1982.

**Harold Waitz, Ph.D.**, 64, is our Vice President of Engineering and Regulatory Affairs and a member of the Office of the President, and has served on the Board of Directors since 1990. He received his Ph.D. in Biophysics and Medical Physics from the University of California at Berkeley in 1983.

**Judith Segall**, 53, is our Vice President of Operations and Secretary and a member of the Office of the President, and has served on the Board of Directors from 1990 through 1994, and from 1995 through the present date. Ms. Segall received a B.S. in Nutrition and Clinical Dietetics from the University of California at Berkeley in 1989.

**Michael D. West, Ph.D.**, 53, has served on the Board of Directors since 2002. Dr. West serves as President and Chief Scientific Officer of Advanced Cell Technology, Inc., and is Adjunct Professor of Bioengineering at the University of California, Berkeley. Dr. West has extensive academic and business experience in age-related degenerative diseases, telomerase molecular biology and human embryonic stem cell research and development. Prior to joining ACT in 1998, Dr. West founded Geron Corporation of Menlo Park, California and from 1990 to 1998 he was a Director and Vice President, where he initiated and managed programs in telomerase diagnostics, oligonucleotide-based telomerase inhibition as anti-tumor therapy, and the cloning and use of telomerase in telomerase-mediated therapy wherein telomerase is utilized to immortalize human cells. From 1995 to 1998 he organized and managed the research between Geron and its academic collaborators James Thomson and John Gearhart that led to the first isolation of human embryonic stem and human embryonic germ cells. Dr. West received a B.S. Degree from Rensselaer Polytechnic Institute in 1976, an M.S. Degree in Biology from Andrews University in 1982, and a Ph.D. from Baylor College of Medicine in 1989 concentrating on the biology of cellular aging.

**Valeta Gregg**, 53, joined the Board of Directors during October 2004. Ms. Gregg is Vice President and Assistant General Counsel, Patents of Regeneron Pharmaceuticals, Inc., a Tarrytown, New York based company engaged in the development of pharmaceutical products for the treatment of a number of serious medical conditions, including cancer, diseases of the eye, rheumatoid arthritis and other inflammatory conditions, allergies, asthma, and obesity. Prior to joining Regeneron in 2002, Ms. Gregg worked as a patent attorney, at Klauber & Jackson in Hackensack, New Jersey from

2001 to 2002, and for Novo Nordisk A/S and its United States subsidiary from 1996 to 2001, and for Fish & Richardson, P.C., Menlo Park, California from 1994 to 1996. Ms. Gregg received her law degree from University of Colorado School of Law in 1992 and received a Ph.D in Biochemistry from the University of Alberta in 1982.

### **Executive Officers**

Hal Sternberg, Harold Waitz, Judith Segall, Jeffrey B. Nickel, and Steven Seinberg are the only executive officers of BioTime. Following the death of Dr. Paul Segall, BioTime's Chairman and Chief Executive Officer in June 2003, the Board of Directors appointed Hal Sternberg, Harold Waitz, and Judith Segall to serve as members of the Office of the President. The members of the Office of the President collectively exercise the powers of the Chief Executive Officer.

**Steven A. Seinberg, J.D.**, 40, became Chief Financial Officer and Treasurer during August 2001. Prior to assuming these positions, Mr. Seinberg worked for over five years as BioTime's Director of Financial and Legal Research, a position that involved, among other duties, contract modifications and management of our intellectual property portfolio. Mr. Seinberg received a J.D. from Hastings College of the Law in San Francisco in 1994.

**Jeffrey B. Nickel, Ph.D.**, 63, became Vice President of Business Development and Marketing during June 2004 and served on the Board of Directors from 1997 until June 2004. Dr. Nickel was the President of Nickel Consulting through which he served as a consultant to companies in the pharmaceutical and biotechnology industries from 1990 until becoming Vice President of BioTime. Prior to starting his consulting business, Dr. Nickel served in a number of management positions for Syntex Corporation and Merck & Company. Dr. Nickel received his Ph.D. in Organic Chemistry from Rutgers University in 1970.

There are no family relationships among our directors or officers.

### **Committees of the Board**

The Board of Directors has an Audit Committee, a Compensation Committee and a Nominating Committee. Each of those committees is composed of three directors who are independent in accordance with Section 121(A) of the American Stock Exchange (AAMEX@) listing standards and Section 10A-3 under the Securities Exchange Act of 1934, as amended.

The members of the Audit Committee are Valeta Gregg and Michael West. The Audit Committee met four times during the fiscal year ended December 31, 2006. The purpose of the Audit Committee is to recommend the engagement of our independent auditors and to review their performance, the plan, scope and results of the audit, and the fees paid to the corporation's independent auditors. The Audit Committee also will review our accounting and financial reporting procedures and controls and all transactions between us and our officers, directors, and shareholders who beneficially own 5% or more of the common shares.

The Board of Directors has determined that Michael West is an audit committee financial expert within the meaning of Item 407(d) of SEC Regulation S-K on the basis of Mr. West's experience as the President of Advanced Cell Technology, Inc. and as a founder of Geron, Inc. Mr. West has had oversight over the performance of the chief financial and accounting officers of those companies.



A copy of the Audit Committee Charter has been posted on our internet website and can be found at [www.biotimeinc.com](http://www.biotimeinc.com).

#### **Compliance with Section 16(a) of the Securities Exchange Act of 1934**

Section 16(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), requires our directors and executive officers and persons who own more than ten percent (10%) of a registered class of our equity securities to file with the Securities and Exchange Commission (the "SEC") initial reports of ownership and reports of changes in ownership of common shares and other BioTime equity securities. Officers, directors and greater than ten percent beneficial owners are required by SEC regulations to furnish us with copies of all reports they file under Section 16(a).

To our knowledge, based solely on our review of the copies of such reports furnished to us, all Section 16(a) filing requirements applicable to our officers, directors, and greater than ten percent beneficial owners were complied with during the fiscal year ended December 31, 2006, except that Alfred D. Kingsley and Greenbelt Corp. were delinquent in filing a Form 4.

#### **Code of Ethics**

We have adopted a Code of Ethics that applies to our principal executive officers, our principal financial officer and accounting officer, our other executive officers, and our directors. The purpose of the Code of Ethics is to promote (i) honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships; (ii) full, fair, accurate, timely and understandable disclosure in reports and documents that we file with or submit to the Securities and Exchange Commission and in our other public communications; (iii) compliance with applicable governmental rules and regulations, (iv) prompt internal reporting of violations of the Code to an appropriate person or persons identified in the Code; and (v) accountability for adherence to the Code. A copy of our Code of Ethics has been posted on our internet website and can be found at [www.biotimeinc.com](http://www.biotimeinc.com).

#### **Item 10. Executive Compensation**

We do not have long term employment agreements with our executive officers. However, each executive officer has executed an Intellectual Property Agreement which provides that BioTime is the owner of all inventions developed by the executive officer during the course of his or her employment.

The following table summarizes certain information concerning the compensation paid during the past two fiscal years to each of the executive officers:

**SUMMARY COMPENSATION TABLE**

Name and Principal Position	Year	Salary	Bonus	Option Awards	Total
Hal Sternberg Vice President of Research Member, Office of the President	2006	\$100,000	\$ —	\$10,913	\$110,913
	2005	\$90,167		\$ —	\$90,167
Harold Waitz Vice President of Regulatory Affairs & Engineering Member, Office of the President	2006	\$100,000	\$ —	\$10,913	\$110,913
	2005	\$94,333		\$ —	\$94,333
Judith Segall Vice President of Operations Corporate Secretary Member, Office of the President	2006	\$108,000	\$ —	\$10,913	\$118,913
	2005	\$58,500		\$17,068	\$75,568
Steven A. Seinberg Chief Financial Officer and Treasurer Member, Office of the President	2006	\$100,000	\$ —	\$10,913	\$110,913
	2005	\$94,917		\$ —	\$94,333
Jeffrey Nickel Vice President of Business Development and Marketing	2006	\$100,000	\$ —	\$10,913	\$110,913
	2005	\$54,167		\$ —	\$54,167

On November 8, 2005, the Board of Directors granted Judith Segall an option to purchase 125,000 common shares, each, at an exercise price of \$2.00 per share. The option was granted under our 2002 Stock Option Plan. The options will expire five years from the date of grant, or within three months after termination of the executive's employment, subject to certain exceptions in the event of death or disability. The exercise price of the option exceeded the closing price the common shares as reported on the Nasdaq OTCBB on the date of the grant.

On November 24, 2006, the Board of Directors granted Judith Segall, Harold Waitz, Hal Sternberg, Steven Seinberg, and Jeffrey Nickel options to purchase 80,000 common shares, each, at an exercise price of \$0.32 per shares. Each option was granted under our 2002 Stock Option Plan. The options will expire five years from the date of grant, or within three months after termination of the executive's employment, subject to certain exceptions in the event of death or disability. The exercise price of the options was equal to 150% of the closing price the common shares as reported on the Nasdaq OTCBB on November 22, 2006, the last trading day before the effective date of the grant.

**Stock Options**

The following table summarizes certain information concerning stock options held by each member of the Office of the President as of December 31, 2006.

**OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END**Option Awards

Name	Number of Securities Underlying Unexercised Options Exercisable	Number of Securities Underlying Unexercised Options Unexercisable	Option Exercise Price	Option Expiration Date
Judith Segall	80,000 <sup>(1)</sup>	12,500 <sup>(2)</sup>	\$4.00	October 27, 2007
	37,500 <sup>(2)</sup>		\$2.00	May 31, 2009
	125,000 <sup>(3)</sup>		\$2.00	November 7, 2010
	80,000 <sup>(4)</sup>		\$0.32	November 23, 2011
Hal Sternberg	90,000 <sup>(5)</sup>	12,500 <sup>(2)</sup>	\$4.00	October 27, 2007
	37,500 <sup>(2)</sup>		\$2.00	May 31, 2009
	80,000 <sup>(4)</sup>		\$0.32	November 23, 2011
Harold Waitz	80,000 <sup>(1)</sup>	12,500 <sup>(2)</sup>	\$4.00	October 27, 2007
	37,500 <sup>(2)</sup>		\$2.00	May 31, 2009
	80,000 <sup>(4)</sup>		\$0.32	November 23, 2011
S t e v e n Seinberg	20,000 <sup>(6)</sup>	6,250 <sup>(7)</sup>	\$4.00	October 27, 2007
	18,750 <sup>(7)</sup>		\$2.00	May 31, 2009
	80,000 <sup>(4)</sup>		\$0.32	November 23, 2011
Jeffrey Nickel	20,000 <sup>(8)</sup>	25,000 <sup>(11)</sup>	\$3.00	March 30, 2007
	20,000 <sup>(9)</sup>		\$1.55	March 30, 2008
	10,000 <sup>(10)</sup>		\$2.17	March 7, 2009
	75,000 <sup>(11)</sup>		\$2.00	May 31, 2009
	80,000 <sup>(4)</sup>		\$0.32	November 23, 2011

(1) 26,666 options became exercisable on October 28, 2002, 26,667 options became exercisable on January 1, 2003, and 26,667 options became exercisable on January 4, 2004.

(2) 12,500 options became exercisable on June 1, 2004 and the remaining options became or will become exercisable in three equal annual installments.

(3) 125,000 options became exercisable on November 8, 2005

(4) 80,000 options became exercisable on November 24, 2006

(5) 30,000 options became exercisable on October 28, 2002, 30,000 options became exercisable on January 1, 2003, and 30,000 options became exercisable on January 4, 2004.

(6) 6,666 options became exercisable on October 28, 2002, 6,667 options became exercisable on January 1, 2003, and 6,667 options became exercisable on January 4, 2004.

(7) 6,250 options became exercisable on June 1, 2004 and the remaining options became or will become exercisable in three equal annual installments.

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(8) 12,500 options became exercisable on March 31, 2002 and the remaining options became or will become exercisable in nine equal monthly installments.

(9) 5,000 options became exercisable on March 31, 2003 and the remaining options became or will become exercisable in nine equal monthly installments.

(10) 5,000 options became exercisable on March 31, 2004 and the remaining options became or will become exercisable in on May 31, 2004.

(11) 25,000 options became exercisable on June 1, 2004 and the remaining options became or will become exercisable in three equal annual installments.

### Compensation of Directors

The two directors who were not employees each received either \$10,000 in cash and options to purchase 10,000 common shares exercisable at \$0.34 per share, which was the closing price of the common shares reported on the OTCBB on March 28, 2006, or options to purchase 20,000 common shares exercisable at \$0.34 per share. The options granted to these directors vested and became exercisable in equal quarterly installments based on continued service on the Board of Directors. Directors and members of committees of the Board of Directors who are BioTime employees are not compensated for serving as directors or attending meetings of the Board or committees of the Board. Directors are entitled to reimbursements for their out-of-pocket expenses incurred in attending meetings of the Board or committees of the Board. Directors who are BioTime employees are also entitled to receive compensation in such capacity.

The following table summarizes certain information concerning the compensation paid during the past fiscal year to each of the current members of the Board of Directors who are not employees of BioTime.

#### DIRECTOR COMPENSATION

Name	Fees Earned or Paid In		Option Awards	Total
	Cash			
Michael D. West		-\$ 5,003	\$ 5,003	
Valeta Gregg	\$ 10,000	\$ 2,502	\$ 12,502	

(1) At December 31, 2006 Michael West held options to purchase 98,332 common shares at exercise prices ranging from \$0.34 to \$1.26 per share.

(2) At December 31, 2006 Valeta Gregg held options to purchase 38,332 common shares at exercise prices ranging from \$0.34 to \$2.17 per share.

**Item 11. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The following table sets forth information as of March 1, 2006 concerning beneficial ownership of common shares by each shareholder known by us to be the beneficial owner of 5% or more of our common shares. Information concerning certain beneficial owners of more than 5% of the common shares is based upon information disclosed by such owners in their reports on Schedule 13D or Schedule 13G.

**Security Ownership of Certain Beneficial Owners**

	Number of Shares	Percent of Total
A l f r e d D . Kingsley <sup>(1)</sup> Gary K. Duberstein Greenbelt Corp. Greenway Partners, L.P. Greenhouse Partners, L.P. 110 E. 59 <sup>th</sup> Street, Suite 3203 New York, New York 10022	9,888,204	38.5%
Neal C. Bradsher <sup>(2)</sup> Broadwood Partners, L.P. Broadwood Capital, Inc. 767 Fifth Avenue, 50 <sup>th</sup> Floor New York, NY 10153	3,321,806	13.8%
George Karfunkel <sup>(3)</sup> 59 Maiden Lane New York, New York 10038	2,342,108	9.8%
Cyndel & Co., Inc <sup>(4)</sup> Patrick Kolenik Huntington Laurel Partnership 36 Golf Lane Huntington, NY 11743 Cynthia Bayern	1,795,270	7.6%

Steven Bayern  
BN Ventures, LLC  
SJCMB Family  
Limited Partnership  
26 West Broadway  
#1004  
Long Beach, NY  
11561

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(1) Includes 1,606,698 shares presently owned by Greenbelt Corp, 334,632 shares that may be acquired by Greenbelt Corp. upon the exercise of certain warrants, 527,942 shares owned by Greenway Partners, L.P., 448,121 shares that may be acquired by Greenway Partners, L.P. upon the exercise of certain warrants, 4,669,522 shares owned solely by Alfred D. Kingsley, 2,301,289 shares that may be acquired by Mr. Kingsley upon the exercise of warrants, 12,256 shares owned solely by Gary K. Duberstein, and 680 shares that may be acquired by Mr. Duberstein upon the exercise of certain warrants. Mr. Kingsley and Mr. Duberstein control Greenbelt Corp. and may be deemed to beneficially own the warrants and shares that Greenbelt Corp. beneficially owns. Greenhouse Partners, L.P. is the general partner of Greenway Partners, L.P., and Mr. Kingsley and Mr. Duberstein are the general partners of Greenhouse Partners, L.P. Greenhouse Partners, L.P., Mr. Kingsley, and Mr. Duberstein may be deemed to beneficially own the shares that Greenway Partners, L.P. owns. Mr.



Duberstein disclaims beneficial ownership of the shares and warrants owned solely by Mr. Kingsley, and Mr. Kingsley disclaims beneficial ownership of the shares owned solely by Mr. Duberstein.

(2) Includes 1,866,566 shares owned by Broadwood Partners, L.P., 1,412,332 shares that may be acquired by Broadwood Partners, L.P upon the exercise of certain warrants, 37,358 shares owned by Neal C. Bradsher, and 5,550 shares that may be acquired by Mr. Bradsher upon the exercise of certain warrants. Broadwood Capital, Inc. is the general partner of Broadwood Partners, L.P., and Mr. Bradsher is the President of Broadwood Capital, Inc. Mr. Bradsher and Broadwood Capital, Inc. may be deemed to beneficially own the shares that Broadwood Partners, L.P. owns.

(3) Includes 1,413,277 shares that maybe acquired upon the exercise of certain warrants.

(4) Includes 104,762 shares owned by Cyndel & Co., Inc., 135,714 shares that Cyndel maybe acquire upon the exercise of certain warrants, 66,500 shares owned by partnership of which Cynthia Bayern is a general partner, 125,000 shares that Dr. Bayern may acquire upon the exercise of certain warrants, 305,000 shares that Steven Bayern may acquire upon the exercise of certain warrants, 222,897 shares owned by Huntington Laurel Partnership, 220,297 shares that Huntington Laurel Partnership may be acquire upon the exercise of certain warrants, 205,100 shares owned by Patrick Kolenik, 55,000 shares owned by Mr. Kolenik's wife jointly with a third party, and 175,000 shares that Mr. Kolenik may acquire upon the exercise of certain warrants. Steven Bayern and Cynthia Bayern are husband and wife and each may be deemed to beneficially own the shares beneficially owned by the other. Mr. Bayern and Mr. Kolenik are the shareholders, officers and directors of Cyndel and may be deemed to beneficially own the shares that Cyndel owns. Mr. Bayern and Mr. Kolenik are the members of the general partner of Huntington Laurel Partnership and may be deemed to beneficially own the shares owned by that partnership.

### Security Ownership Of Management

The following table sets forth information as of March 1, 2006 concerning beneficial ownership of common shares by each member of the Board of Directors, certain executive officers, and all officers and directors as a group.

	Number of Shares	Percent of Total
Judith Segall <sup>(1)</sup>	792,669	3.5%
Hal Sternberg <sup>(2)</sup>	500,201	2.2%
Harold D. Waitz <sup>(3)</sup>	418,625	1.8%
Jeffrey Nickel <sup>(4)</sup>	242,812	1.1%
Steven A. Seinberg <sup>(5)</sup>	125,000	*
Michael D. West <sup>(6)</sup>	98,332	*
Valeta Gregg <sup>(7)</sup>	38,332	*
All officers and directors as a group (7 persons) <sup>(8)</sup>	2,215,971	9.3%

\* Less than 1%

(1) Includes 335,000 shares that may be acquired upon the exercise of certain stock options, and 45,337 shares that may be acquired upon the exercise of certain warrants.

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- (2) Includes 220,000 shares that may be acquired upon the exercise of certain options and 25,931 shares that may be acquired upon the exercise of certain warrants.
- (3) Includes 2,952 shares held for the benefit of Dr. Waitz's children, 210,000 shares that may be acquired by Dr. Waitz upon the exercise of certain stock options, 38,379 shares that may be acquired by Dr. Waitz upon the exercise of certain warrants (including 720 warrants held for the benefit of Dr. Waitz's children).
- (4) Includes 230,000 shares that may be acquired upon the exercise of certain options and 937 shares that may be acquired upon the exercise of certain warrants.
- (5) Includes 125,000 shares that may be acquired upon the exercise of certain options.
- (6) Includes 98,332 shares that may be acquired upon the exercise of certain options.
- (7) Includes 38,332 shares that may be acquired upon the exercise of certain options.
- (8) Includes 1,370,200 shares that may be acquired upon the exercise of certain options and warrants.

**Item 12. Certain Relationships and Related Transactions**

During April 1998, we entered into a financial advisory services agreement with Greenbelt Corp., a corporation controlled by Alfred D. Kingsley and Gary K. Duberstein, who are also BioTime shareholders. We agreed to indemnify Greenbelt and its officers, affiliates, employees, agents, assignees, and controlling person from any liabilities arising out of or in connection with actions taken on our behalf under the agreement. The agreement has been renewed each year and will expire on March 31, 2007. We agreed to issue Greenbelt \$90,000 cash and 80,000 common shares for the twelve months ending March 31, 2004, \$90,000 cash and 60,000 common shares for the twelve months ending March 31, 2005, and \$45,000 cash and 135,000 common shares for the twelve months ending March 31, 2006. The financial advisory agreement with Greenbelt has been extended through March 31, 2007 and for service rendered Greenbelt will be entitled to receive a cash fee of \$90,000 and 200,000 Shares (the "2006 Consulting Shares"). The 2006 Consulting Shares are issuable in two installments as follows: 150,000 Shares on January 2, 2007 for services rendered through December 31, 2006, and 50,000 Shares on April 2, 2007 for services rendered from January 1, 2007 through March 31, 2007. The cash fee is payable as follows: \$30,000 on January 2, 2007, \$30,000 on April 2, 2007, and \$30,000 on October 1, 2007; provided, that we may defer either or both of the cash payments that would otherwise be due on January 2, 2007 and April 2, 2007 until a date that we may determine, but not later than October 1, 2007. If we elect to defer a cash payment, we will issue to Greenbelt 30,000 additional common shares within ten business days after the date on which the deferred cash payment was originally due. To date, we have now deferred both the January 2, 2007 payment and the April 2, 2007 payment, thereby necessitating issuance of a total of 60,000 shares to Greenbelt. We have agreed to file a registration statement, at our expense, to register Greenbelt's shares for sale under the Securities Act of 1933, as amended, upon Greenbelt's request.

On December 10, 2003, we commenced the 2003 Rights Offer by distributing 13,654,949 subscription rights to our shareholders, entitling them to purchase a total of 1,706,869 units at a subscription price of \$1.40 per unit. Each unit consisted of one new common share and one-half of a warrant to purchase an additional common share. We also reserved 853,434 additional units for sale to fill over-subscriptions.

A group of private investors (the “2003 Guarantors”) including Mr. Kingsley, Broadwood Partners, LP (“Broadwood”), George Karfunkel, and Cynthia Bayern, and holders of \$1,500,000 in principal amount of BioTime Series 2001-A debentures (the “Participating Debenture Holders”), including Mr. Kingsley, Broadwood and Mr. Karfunkel, agreed to purchase units that remained unsold at the conclusion of the 2003 Rights Offer, excluding units that we reserved to issue to fill over-subscriptions, and subject to a maximum purchase commitment of \$2,250,000. The Participating Debenture Holders agreed to purchase their portion of any unsold units by exchanging a principal amount of Series 2001-A debentures equal to the purchase price of the units. Mr. Kingsley’s purchase commitment under the Standby Purchase Agreement as a 2003 Guarantor was \$187,500, payable in cash, and his purchase commitment as a Participating Debenture Holder was \$818,182, payable in debentures. Broadwood’s purchase commitment as a Participating Debenture Holder was \$272,727, payable in debentures. Mr. Karfunkel’s purchase commitment under the Standby Purchase Agreement as a 2003 Guarantor was \$187,500, payable in cash, and his purchase commitment as a Participating Debenture Holder was \$272,727, payable in debentures. Dr. Bayern’s purchase commitment under the Standby Purchase Agreement as a 2003 Guarantor was \$375,000, payable in cash. The 2003 Guarantors and Participating Debenture Holders were not required to acquire any units through those commitments because the 2003 Rights Offer was oversubscribed.

Under the Standby Purchase Agreement, the 2003 Guarantors and Participating Debenture Holders received the following cash and warrants as compensation:

2003 Guarantor or Participating Debenture Holder	Cash Fee	Warrants
Kingsley	\$ 67,045	335,227
Broadwood	\$ 18,182	90,909
Karfunkel	\$ 30,682	153,409
Bayern	\$ 25,000	125,000

Under the Standby Purchase Agreement, we also offered to sell up to an additional 428,571 units at the subscription price directly to the 2003 Guarantors and their designees. Mr. Kingsley assigned his right to purchase 107,142 of those units to Dr. Bayern. The Participating Debenture Holders agreed to exchange \$1,500,000 of their debentures for units, if the 2003 Rights Offer was over-subscribed so that we issued all of the units reserved to fill excess over-subscriptions, and if the 2003 Guarantors purchased all 428,571 additional units offered to them. Mr. Kingsley exchanged \$818,182 of his debentures for 584,415 common shares and 292,207 warrants, Broadwood exchanged \$272,727 of its debentures for 194,805 common shares and 97,402 warrants, and Mr. Karfunkel exchanged \$272,727 of his debentures for 194,805 common shares and 97,402 warrants.

Following the 2003 Rights Offer, we eliminated the balance of our debenture indebtedness by repaying \$1,850,000 of debentures in cash. Mr. Kingsley, Broadwood, and Mr. Karfunkel received \$681,820, \$227,273, and \$227,273 in cash, respectively, plus accrued interest, for their debentures.

On October 27, 2005, we commenced the 2005 Rights Offer by distributing 17,871,450 subscription rights to our shareholders, entitling them to purchase a total of 4,467,862 units at a subscription price of \$0.40 per unit. Each unit consisted of one new common share and one warrant to purchase an additional common share.

Mr. Kingsley and his affiliate Greenway Partners, L.P. (“Greenway”), Broadwood, Cyndel & Co., Inc. (“Cyndel”), and Mr. Karfunkel (the “2005 Guarantors”) entered into a new Standby Purchase Agreement under which they agreed to purchase units that remained unsold at the conclusion of the 2005 Rights Offer, excluding units that we reserved to issue to fill over-subscriptions. Mr. Kingsley purchased 605,890 units, Greenway purchased 302,940 units, Broadwood purchased 908,830 units, Mr. Karfunkel purchased 908,830 units, and Cyndel purchased 545,298 units under the Standby Purchase Agreement.

Under the Standby Purchase Agreement, the 2005 Guarantors received the following cash and warrants as compensation for acting as Guarantors:

2005 Guarantor	Cash Fee	Warrants
Kingsley	\$ 24,444	111,111
Greenway	\$ 12,222	55,555
Broadwood	\$ 36,667	166,667
Karfunkel	\$ 36,667	166,667
Cyndel	\$ 22,000	100,000

We issued Mr. Bayern a warrant to purchase 100,000 common shares at an exercise price of \$4.00 per share as part of his consulting compensation during 2004. The warrant will expire in April 2007. Mr. Bayern is an officer, director, and shareholder of Cyndel and is the husband of Cynthia Bayern.

During April 2006, we entered into a Revolving Line of Credit Agreement (the “Credit Agreement”) with Alfred D. Kingsley, Cyndel & Co., Inc., and George Karfunkel under which we may borrow up to \$500,000 for working capital purposes at an interest rate of 10% per annum. The credit line will expire, and any funds borrowed must be repaid, on the earlier of October 31, 2007 or when we receive \$600,000 in new funding through the sale of capital stock, the receipt of licensing and similar fees in excess of \$1,000,000, from other borrowing, or any combination of those sources. Under the Credit Agreement, we will prepay, and the credit line will be reduced by, any funds we receive prior to the maturity date from those sources. In consideration for making the line of credit available, we issued to the lenders at total of 100,000 common shares. The line of credit is collateralized by a security interest in our right to receive royalty and other payments under our license agreement with Hospira, Inc.

**Item 13. Exhibits.**

(a-1) Financial Statements.

The following financial statements of BioTime, Inc. are filed in the Form 10-K:

Notes to Financial Statements

(a-2) Financial Statement Schedules

All schedules are omitted because the required information is inapplicable or the information is presented in the financial statements or the notes thereto.

(a-3) Exhibits.

E x h i b i t

<u>Numbers</u>	<u>Description</u>
3.1	Articles of Incorporation.†
3.2	Amendment of Articles of Incorporation.*****
3.3	By-Laws, As Amended.#
4.1	Specimen of Common Share Certificate.+
4.2	Form of Warrant Agreement between BioTime, Inc. and American Stock Transfer & Trust Company++
4.3	Form of Amendment to Warrant Agreement between BioTime, Inc. and American Stock Transfer & Trust Company. +++
4.4	Form of Warrant+++
10.1	Intellectual Property Agreement between BioTime, Inc. and Hal Sternberg.+
10.2	Intellectual Property Agreement between BioTime, Inc. and Harold Waitz.+
10.3	Intellectual Property Agreement between BioTime, Inc. and Judith Segall.+
10.4	Intellectual Property Agreement between BioTime, Inc. and Steven Seinberg.*
10.5	Agreement between CMSI and BioTime Officers Releasing Employment Agreements, Selling Shares, and Transferring Non-Exclusive License.+
10.6	Agreement for Trans Time, Inc. to Exchange CMSI Common Stock for BioTime, Inc. Common Shares.+
10.7	2002 Stock Option Plan, as amended.##
10.8	Exclusive License Agreement between Abbott Laboratories and BioTime, Inc. (Portions of this exhibit have been omitted pursuant to a request for confidential treatment).###

- 10.9 Modification of Exclusive License Agreement between Abbott Laboratories and BioTime, Inc. (Portions of this exhibit have been omitted pursuant to a request for confidential treatment).^
- 10.10 Warrant Agreement, dated March 27, 2002, between BioTime, Inc. and Alfred D. Kingsley\*
- 10.11 Warrant for the Purchase of Common Shares, dated August 12, 2002, issued to Ladenburg Thalmann & Co. Inc.\*\*
- 10.12 Exclusive License Agreement between BioTime, Inc. and CJ Corp.\*\*\*
- 10.13 Hextend and PentaLyte Collaboration Agreement between BioTime, Inc. and Summit Pharmaceuticals International Corporation.‡
- 10.14 Lease dated as of May 4, 2005 between BioTime, Inc. and Hollis R& D Associates ‡‡
- 10.15 Addendum to Hextend and PentaLyte Collaboration Agreement Between BioTime Inc. And Summit Pharmaceuticals International Corporation‡‡‡

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- 10.16 Amendment to Exclusive License Agreement Between BioTime Inc. and Hospira, Inc.††
- 10.17 Hextend and PentaLyte China License Agreement Between BioTime, Inc. and Summit Pharmaceuticals International Corporation.†††
- 10.18 Revolving Credit Line Agreement between BioTime, Inc, Alfred D. Kingsley, Cyndel & Co., Inc., and George Karfunkel, dated April 12, 2006.††††
- 10.19 Security Agreement executed by BioTime, Inc., dated April 12, 2006.††††
- 10.20 Form of Revolving Credit Note of BioTime, Inc. in the principal amount of \$166,666.67 dated April 12, 2006.††††
- 23.1 Consent of Rothstein, Kass & Company, P.C.++++
- 23.2 Consent of BDO Seidman, LLP++++
- 31 Rule 13a-14(a)/15d-14(a) Certification++++
- 32 Section 1350 Certification++++

† Incorporated by reference to BioTime's Form 10-K for the fiscal year ended June 30, 1998.

+ Incorporated by reference to Registration Statement on Form S-1, File Number 33-44549 filed with the Securities and Exchange Commission on December 18, 1991, and Amendment No. 1 and Amendment No. 2 thereto filed with the Securities and Exchange Commission on February 6, 1992 and March 7, 1992, respectively.

# Incorporated by reference to Registration Statement on Form S-1, File Number 33-48717 and Post-Effective Amendment No. 1 thereto filed with the Securities and Exchange Commission on June 22, 1992, and August 27, 1992, respectively.

++ Incorporated by reference to Registration Statement on Form S-2, File Number 333-109442, filed with the Securities and Exchange Commission on October 3, 2003, and Amendment No.1 thereto filed with the Securities and Exchange Commission on November 13, 2003.

+++ Incorporated by reference to Registration Statement on Form S-2, File Number 333-128083, filed with the Securities and Exchange Commission on September 2, 2005.

## Incorporated by reference to Registration Statement on Form S-8, File Number 333-101651 filed with the Securities and Exchange Commission on December 4, 2002 and Registration Statement on Form S-8, File Number 333-122844 filed with the Securities and Exchange Commission on February 23, 2005.

### Incorporated by reference to BioTime's Form 8-K, filed April 24, 1997.

^ Incorporated by reference to BioTime's Form 10-Q for the quarter ended June 30, 1999.

\* Incorporated by reference to BioTime's Form 10-K for the year ended December 31, 2001.

\*\* Incorporated by reference to BioTime's Form 10-Q for the quarter ended June 30, 2002.



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\*\*\* Incorporated by reference to BioTime's Form 10-K/A-1 for the year ended December 31, 2002.

‡ Incorporated by reference to BioTime's Form 8-K, filed December 30, 2004

‡‡ Incorporated by reference to Post-Effective Amendment No. 3 to Registration Statement on Form S-2 File Number 333-109442, filed with the Securities and Exchange Commission on May 24, 2005

‡‡‡ Incorporated by reference to BioTime's Form 8-K, filed December 20, 2005

†† Incorporated by reference to BioTime's Form 8-K, filed January 13, 2006

††† Incorporated by reference to BioTime's Form 8-K, filed March 30, 2006

†††† Incorporated by reference to BioTime's Form 10-K For the year ended December 31, 2005

\*\*\*\*\* Incorporated by reference to BioTime's Form 10-Q for the quarter ended June 30, 2006.

++++Filed herewith

**Item 14. Principal Accountant Fees and Services**

Rothstein, Kass and Company (“RKCO”) audited our annual financial statements for the fiscal year ended December 31, 2006. We first engaged RKCO as our auditors in February 2007; we did not pay them any fees during the year ended December 31, 2006. BDO Seidman, LLP (“BDO”) audited our annual financial statements for the fiscal year ended December 31, 2005, and reviewed our financial statements included in our quarterly reports on Form 10-QSB for the first three quarters of 2006.

*Audit Fees.* BDO billed us \$165,751 in 2005 for the audit of our annual financial statements and for the review of our financial statements included in our quarterly reports on Form 10-Q. BDO billed us \$86,998 in 2006 for the review of our financial statements included in our quarterly reports on Form 10-QSB, and for work performed in conjunction with the audit of our annual financial statements. In 2005, BDO also provided services related to the filing of securities registration statements; fees for those services were \$33,770. No such services were performed in 2006.

*Audit-Related Fees.* BDO billed us \$8,440 for audit-related fees during the fiscal year ended December 31 2005. These fees were incurred in connection with BDO’s consultations relative to the BioTime-Summit transactions. No such services were performed in 2006.

*Tax Fees.* BDO billed us \$7,000 for review and preparation of U.S. federal, state, and local tax returns during the fiscal years ended December 31, 2005 and 2006.

*Other Fees.* There were no other fees charged to us by BDO during the fiscal years ended December 31, 2005 and 2006.

Under practices and procedures adopted by the Audit Committee, the prior approval of the Audit Committee is required for the engagement of BioTime's auditors to perform any non-audit services for BioTime. Other than de minimis services incidental to audit services, non-audit services shall generally be limited to tax services such as advice and planning and financial due diligence services. All fees for such non-audit services must be approved by the Audit Committee, except to the extent otherwise permitted by applicable SEC regulations.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report on Form 10-KSB to be signed on its behalf by the undersigned, thereunto duly authorized on the 16th day of April 2007.

BIOTIME, INC.

By: /s/Judith Segall  
 Judith Segall, Vice  
 President-Operations,  
 Member, Office of the President\*

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/Judith Segall</u> Judith Segall	Vice President -Operations and Corporate Secretary; Member- Office of the President* and Director	April 16, 2007
<u>/s/Hal Sternberg</u> — Hal Sternberg, Ph.D.	Vice President-Research;  Member, Office of the President* and Director	April 16, 2007
<u>/s/Harold D. Waitz</u> — Harold D. Waitz, Ph.D.	Vice President-Regulatory Affairs; Member, Office of the President* and Director	April 16, 2007
<u>/s/Steven A. Seiberger</u>  Steven A. Seiberger	Chief Financial Officer  (Principal Financial and Accounting Officer)	April 16, 2007
Michael D. West	Director	April ____, 2007
<u>/s/Valeta Gregg</u> Valeta Gregg	Director	April 16, 2007

\* The Office of the President is comprised of the three above-referenced executive officers of the Registrant who collectively exercise the powers of the Chief Executive Officer.

Exhibit  
Numbers

-	<u>Description</u>
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- 10.17 Hextend and PentaLyte China License Agreement Between BioTime, Inc. and Summit Pharmaceuticals International Corporation. †††
- 10.18 Revolving Credit Line Agreement between BioTime, Inc, Alfred D. Kingsley, Cyndel & Co., Inc., and George Karfunkel, dated April 12, 2006. ††††
- 10.19 Security Agreement executed by BioTime, Inc., dated April 12, 2006. ††††
- 10.20 Form of Revolving Credit Note of BioTime, Inc. in the principal amount of \$166,666.67 dated April 12, 2006. ††††
- 23.1 Consent of Rothstein, Kass & Company, P.C.++++
- 23.2 Consent of BDO Seidman, LLP++++
- 31 Rule 13a-14(a)/15d-14(a) Certification++++
- 32 Section 1350 Certification++++

‡Incorporated by reference to BioTime's Form 10-K for the fiscal year ended June 30, 1998.

+ Incorporated by reference to Registration Statement on Form S-1, File Number 33-44549 filed with the Securities and Exchange Commission on December 18, 1991, and Amendment No. 1 and Amendment No. 2 thereto filed with the Securities and Exchange Commission on February 6, 1992 and March 7, 1992, respectively.

# Incorporated by reference to Registration Statement on Form S-1, File Number 33-48717 and Post-Effective Amendment No. 1 thereto filed with the Securities and Exchange Commission on June 22, 1992, and August 27, 1992, respectively.

++ Incorporated by reference to Registration Statement on Form S-2, File Number 333-109442, filed with the Securities and Exchange Commission on October 3, 2003, and Amendment No.1 thereto filed with the Securities and Exchange Commission on November 13, 2003.

+++Incorporated by reference to Registration Statement on Form S-2, File Number 333-128083, filed with the Securities and Exchange Commission on September 2, 2005.

## Incorporated by reference to Registration Statement on Form S-8, File Number 333-101651 filed with the Securities and Exchange Commission on December 4, 2002 and Registration Statement on Form S-8, File Number 333-122844 filed with the Securities and Exchange Commission on February 23, 2005.

### Incorporated by reference to BioTime's Form 8-K, filed April 24, 1997.

^ Incorporated by reference to BioTime's Form 10-Q for the quarter ended June 30, 1999.

\* Incorporated by reference to BioTime's Form 10-K for the year ended December 31, 2001.

\*\* Incorporated by reference to BioTime's Form 10-Q for the quarter ended June 30, 2002.

\*\*\* Incorporated by reference to BioTime's Form 10-K/A-1 for the year ended December 31, 2002.

‡ Incorporated by reference to BioTime's Form 8-K, filed December 30, 2004

‡‡ Incorporated by reference to Post-Effective Amendment No. 3 to Registration Statement on Form S-2 File Number 333-109442, filed with the Securities and Exchange Commission on May 24, 2005

‡‡‡ Incorporated by reference to BioTime's Form 8-K, filed December 20, 2005

†† Incorporated by reference to BioTime's Form 8-K, filed January 13, 2006

††† Incorporated by reference to BioTime's Form 8-K, filed March 30, 2006

†††† Incorporated by reference to BioTime's Form 10-K For the year ended December 31, 2005

\*\*\*\*\* Incorporated by reference to BioTime's Form 10-Q for the quarter ended June 30, 2006.

++++Filed herewith