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

Form 10-K

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2008

or

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

COMMISSION FILE NUMBER 0-19871

STEMCELLS, INC.

(Exact name of Registrant as specified in its charter)

A Delaware Corporation	**94-3078125**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
3155 PORTER DRIVE PALO ALTO, CA	**94304**
(Address of principal offices)	*(zip code)*

Registrant's telephone number, including area code:
(650) 475-3100
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	**Name of Each Exchange on Which Registered**
Common Stock, $0.01 par value	Nasdaq Global Market
Junior Preferred Stock Purchase Rights	

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No ☑

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No ☑

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not 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-K or any amendment to this Form 10-K. ☑

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

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

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

Aggregate market value of common stock held by non-affiliates at June 30, 2008: $99,692,070 Inclusion of shares held beneficially by any person should not be construed to indicate that such person possesses the power, direct or indirect, to direct or cause the direction of management policies of the registrant, or that such person is controlled by or under common control with the Registrant.

Common stock outstanding at March 5, 2009: 95,543,083 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement relating to the registrant's 2009 Annual Meeting of Stockholders to be filed with the Commission pursuant to Regulation 14A are incorporated by reference in Part III of this report.

FORWARD LOOKING STATEMENTS

THIS REPORT CONTAINS FORWARD-LOOKING STATEMENTS AS DEFINED UNDER THE FEDERAL SECURITIES LAWS. ACTUAL RESULTS COULD VARY MATERIALLY. FACTORS THAT COULD CAUSE ACTUAL RESULTS TO VARY MATERIALLY ARE DESCRIBED HEREIN AND IN OTHER DOCUMENTS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. READERS SHOULD PAY PARTICULAR ATTENTION TO THE CONSIDERATIONS DESCRIBED IN THE SECTION OF THIS REPORT ENTITLED "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" AS WELL AS ITEM 1A UNDER THE HEADING "RISK FACTORS."

Table of Contents

NOTE REGARDING REFERENCES TO OUR COMMON STOCK

Throughout this Form 10-K, the words "we," "us," "our," and "StemCells" refer to StemCells, Inc., including StemCells California, Inc., a wholly-owned subsidiary, and the owner or licensee of most of our intellectual property. "Common stock" refers to StemCells, Inc., common stock, $.01 par value.

PART I

Item 1. ***BUSINESS***

Overview

StemCells, Inc. is engaged in the discovery and development of cell-based therapeutics to treat damage to, or degeneration of, major organ systems. Our aim is to restore or support organ function, improve patients' lives and reduce the substantial health care costs associated with these diseases and disorders by identifying and developing stem and progenitor cells as potential therapeutic agents. We currently have two product development programs at the Company: (i) our CNS Program, which is developing applications for our proprietary human neural stem cell and (ii) our Liver Program, which is developing applications for our proprietary human liver engrafting cells.

In our CNS Program, we are focused on developing applications for our HuCNS-SC® product candidate (purified human neural stem cells) for disorders of the central nervous system (CNS). Our HuCNS-SC product candidate is in clinical development for two indications. In January 2009, we completed a six patient Phase I clinical trial to evaluate the safety and preliminary efficacy of HuCNS-SC cells as a treatment for infantile and late infantile neuronal ceroid lipofuscinosis (NCL), two forms of a group of disorders often referred to as Batten disease. We expect to complete data analysis and to report the results of this trial in mid 2009. In December 2008, we received authorization from the US Food and Drug Administration (FDA) to initiate a Phase I clinical trial of our HuCNS-SC cells in a second indication, Pelizeaus-Merzbacher Disease (PMD), a fatal myelination disorder in the brain. We expect the PMD trial to begin in 2009 and that it will take 12-18 months to complete. In addition, our HuCNS-SC cells are in preclinical development for spinal cord injury and retinal disorders.

In our Liver Program, we are in preclinical development with our human liver engrafting cells (hLEC). We have settled on a process to isolate and purify hLEC, and we plan to seek the necessary approvals to initiate a clinical study to evaluate hLEC as a potential cellular therapy, with the initial indication likely to be liver-based metabolic disorders. We are also conducting research to see if hLEC can be made resistant to the hepatitis C virus.

Many degenerative diseases are caused by the loss of normal cellular function in a particular organ. When cells are damaged or destroyed, they no longer produce, metabolize or accurately regulate substances, such as sugars, amino acids, neurotransmitters, and hormones, which are essential to life. Although traditional pharmaceuticals and genetically engineered biologics may have some utility in addressing a degenerative condition, there is no technology existing today that can deliver these essential substances precisely to the sites of action, under the appropriate physiological regulation, in the appropriate quantity, or for the duration required to cure the degenerative condition. Cells, however, can do all this naturally. Thus, transplantation of stem or progenitor cells may prevent the loss of, or even generate new, functional cells and potentially maintain or restore organ function and the patient's health.

We believe that, if successfully developed, our cell technologies will create the basis for therapies that would address a number of conditions with significant unmet medical needs. Many neurodegenerative diseases involve the failure of an organ that cannot be transplanted, such as the brain or spinal cord. Many liver diseases, such as hepatitis, can be addressed by a liver transplant, but transplantable livers are in very limited supply. We estimate that degenerative conditions of the central nervous system (CNS) and the liver together affect more than 35 million people in the United States and account for nearly $200 billion annually in health care costs.[1]

On March 1, 2009, we entered into an asset purchase agreement with Stem Cell Sciences Plc ("SCS") to acquire substantially all of the operating assets and liabilities of SCS (the proposed "Acquisition"). The Acquisition is subject to the approval of the stockholders of SCS and other customary closing conditions, and is expected to

[1] This estimate is based on information from the Alzheimer's Association, the Alzheimer's Disease Education & Referral Center (National Institute on Aging), the National Parkinson Foundation, the National Institutes of Health's National Institute on Neurological Disorders and Stroke, the Foundation for Spinal Cord Injury Prevention, Care & Cure, the Travis Roy Foundation, the Centers for Disease Control and Prevention, the Wisconsin Chapter of the Huntington's Disease Society of America, the American Liver Foundation, and the Cincinnati Children's Hospital Medical Center.

close shortly after the SCS extraordinary general meeting scheduled for March 27, 2009. Upon the closing of this Acquisition, we will acquire (i) expertise and infrastructure for providing cell-based assays for drug discovery and screening; (ii) additional cell technologies relating to embryonic stem cells, induced pluripotent stem cells (iPS cells), and tissue-derived (adult) stem cells; (iii) a patented gene insertion technology with potential utility in drug screening and for applications in cell and gene therapy; (iv) a portfolio of over twenty patent families claiming a range of technologies relevant to cell processing, reprogramming and manipulation and gene targeting; and (v) the SC Proven® media formulation and reagent business of SCS, including its iSTEM®, 2i, 3i, Passaid™, HEScGRO™, and EScGRO™ proprietary media. In recent years, the pharmaceutical industry has shown an increasing interest in the use of cell-based assays in their drug discovery research. Following the closing of this Acquisition, we plan to leverage our expertise in cell biology to pursue non-therapeutic applications of our cell technologies, such as cell-based assays for drug discovery and screening. This additional investment in intended to position us to diversify and pursue near-term commercialization opportunities while continuing to develop our cell-based therapeutic products.

The Potential of Our Tissue-Derived Cell-Based Therapeutics

We are focused on identifying and purifying tissue-derived stem and progenitor cells for use in homologous therapy. Tissue-derived stem cells are developmentally pre-programmed to become the mature functional cells of the organ from which they were derived. We believe that homologous use of purified, unmodified tissue-derived cells (for example, use of brain-derived neural stem cells for treatment of CNS disorders and liver-derived cells for treatment of liver disorders) is the most direct way to provide for engraftment and differentiation into functional cells, and should minimize the risk of transplantation of unwanted cell types.

To our knowledge, no one has developed an effective therapy for replacing lost or damaged tissues from the human nervous system. Replacement of tissues in other areas of the human body is mainly limited to those few cases, such as bone marrow or peripheral blood cell transplants, where transplantation of the patient's own cells is now feasible. In a few additional areas, including the liver, transplantation of donor organs is now used, but is limited by the scarcity of organs available through donation. More recently, investigators have isolated subpopulations of cells from a specific organ, such as hepatocytes from the liver or islet cells from the pancreas, which have been transplanted into patients with a measure of success. However, these types of cell transplants are also limited both by the quality of harvested cells and the availability of suitable organs.

Stem cells are rare and only available in limited supply. They have two defining characteristics: (i) they produce all of the mature cells making up the particular organ and (ii) they self renew — that is, some of the cells developed from stem cells are themselves new stem cells, thus permitting the process to occur again and again. Because of this self-renewal property, we believe that cell-based therapeutics may facilitate the return to proper function of the impaired organ or system potentially for the life of the patient. To date four human stem cells have been identified and characterized in vivo: the hemotopoietic stem cell, the mesenchymal stem cell, the neural stem cell, and the embryonic stem cell. Many researchers believe stem cells exist in other organ systems, including the liver, pancreas endocrine system, and the heart. Stem cells can produce all the mature functional cell types found in normal organs. Progenitor cells are cells that have already developed from the stem cells, but can still produce one or more mature cell types within an organ. We use cells derived from donated fetal or adult tissue sources, which are supplied to us in compliance with all applicable state and federal regulations. We are not involved in any activity directed toward human cloning, nor do we have any plans to start such activities. Upon completion of the Acquisition of the business of SCS, we intend to continue the development of embryonic stem cells and iPS cells as potential research tools. While we are not currently developing embryonic stem cells for therapeutic use, we may in the future explore their applicability as cell-based therapeutic products.

In order to develop cell-based therapeutics, three key challenges must be overcome: (i) identifying the stem or progenitor cells of a particular organ and testing them for therapeutic potential; (ii) creating processes to enable use of these rare cells in clinical applications, such as expanding and banking them in sufficient quantities to transplant into multiple patients, or purifying them for use in direct transplantation; and (iii) demonstrating the safety and efficacy of these potential therapeutics in human clinical trials. With respect to our HuCNS-SC product candidate, we believe we have (i) identified and characterized the human neural stem cell and (ii) developed proprietary and reproducible processes to purify, expand and bank these cells; we are currently at the stage of demonstrating safety and efficacy of our HuCNS-SC product candidate in human clinical trials.

Business Strategy

Our strategy is to identify multiple types of human stem and progenitor cells with therapeutic and commercial importance; to develop techniques and processes either to reproducibly purify these cells for direct transplant or to enable the expansion and banking of these cells; to take them into clinical development and ultimately, to commercialize them as cell-based therapeutic products.

We believe that patent protection will be available to the first to identify and isolate any of the finite number of different types of human stem and progenitor cells, and the first to define methods to culture such cells, making the commercial development of cell-based treatments for currently intractable diseases financially feasible. Thus, a central element of our business strategy is to obtain patent protection for the compositions, processes and uses of these multiple types of cells. We have obtained rights to certain inventions relating to stem cells and progenitor cells from academic institutions. We expect to continue to expand our search for, and to seek to acquire rights from third parties relating to, new stem and progenitor cells.

Research and Development Programs

Overview

The following table summarizes the current status of, and the anticipated initial indications for, our two product development programs. A more detailed discussion of each of these follows the table.

Program Description and Objective	Status
CNS Program Cell-based therapeutics to restore or preserve function to central nervous system tissue by protecting, repairing or replacing dysfunctional or damaged cells. Initial indications are lysosomal storage diseases that affect the CNS, such as NCL, and disorders in which deficient myelination plays a central role, such as PMD.	*Neuronal Ceroid Lipofuscinosis (also known as Batten disease)* • Six-patient Phase I clinical trial completed in January 2009. Results expected to be reported in mid 2009. • Demonstrated *in vivo* proof of principle by showing in a mouse model for infantile NCL that transplanted HuCNS-SC cells can: • continuously produce the enzyme that is deficient in infantile NCL • protect host neurons from death • extend the lifespan of the HuCNS-SC transplanted mice *Pelizeaus-Merzbacher Disease:* • IND to initiate Phase I clinical trial approved by FDA in December 2008 • Demonstrated *in vivo* proof of principle by showing in the myelin deficient shiverer mouse that transplanted HuCNS-SC cells can: • integrate myelin producing oligodendrocytes into the mouse brain • tightly wrap the mouse nerve axons to form myelin sheath

Program Description and Objective	Status
	Spinal Cord Injury: • Demonstrated *in vivo* proof of principle by showing in a mouse model for spinal cord injury that transplanted HuCNS-SC cells can: • restore motor function in injured animals • directly contribute to functional recovery; when human cells are ablated restored function is lost • become specialized oligodendrocytes and neurons *Retinal Disorders:* • Demonstrated *in vivo* proof of principle by showing in the Royal College of Surgeons rat model that HuCNS-SC cells can: • protect retinal cells from degeneration and • prevent or slow loss of vision
Liver Program Cellular therapy to restore function to liver tissue by replacing dysfunctional or damaged cells. Initial indication likely to be liver-based metabolic disorders.	• Demonstrated engraftment and survival of hLEC in an *in vivo* mouse model of liver degeneration • Detected human serum albumin and alpha-1-antitrypsin in serum of transplanted animals • Detected structural elements of the liver (bile canaliculi) • Identified cell surface markers and methods for selection of hLEC from livers of a broad range of age and quality, including livers deemed not suitable for transplantation

CNS Program

Many neurodegenerative diseases involve the failure of central nervous system tissue (i.e., the brain, spinal cord and eye) due to the loss of functional cells. Our CNS Program is initially focusing on developing clinical applications to prevent the loss of, or restore function to, neural cells affected by genetic disorders such as neuronal ceroid lipofuscinosis and certain other lysosomal storage diseases; diseases in which deficient myelination plays a central role, such as Pelizeaus-Merzbacher Disease or cerebral palsy; traumatic insults to the brain or spinal cord; and disorders in which retinal degeneration play a central role, such as age-related macular degeneration or retinitis pigmentosa. These disorders affect a significant number of people in the United States and there currently are no effective long-term therapies for them.

Our lead product candidate, HuCNS-SC cells, is a purified composition of normal human neural stem cells. As such, we believe it is better suited for transplantation and should provide a safer and more effective alternative to therapies that are based on cells derived from cancer cells, animal-derived cells or are an unpurified mix of cell types. Furthermore, our HuCNS-SC cells can be directly transplanted, unlike embryonic stem cells, which require a prerequisite differentiation step prior to administration in order to preclude teratoma formation (tumors of multiple differentiated cell types). Our preclinical research has shown *in vivo* that HuCNS-SC cells engraft, migrate, differentiate into neurons and glial cells, and survive for as long as one year with *no sign* of tumor formation or adverse effects; moreover, the HuCNS-SC cells were still producing progeny cells at the end of the test period. These findings show that our neural stem cells, when transplanted, act like normal stem cells, suggesting the possibility of a continual replenishment of normal human neural cells.

We hold a substantial portfolio of issued and allowed patents in the neural field. See “Patents, Proprietary Rights and Licenses,” below.

Neuronal Ceroid Lipofuscinosis (NCL; also known as Batten disease).

Neuronal ceroid lipofuscinosis (NCL), which is often referred to as Batten disease, is a neurodegenerative disease that affects infants and young children. Two forms of NCL — infantile and late infantile— are caused by the deficiency of a lysosomal enzyme. Infantile and late infantile NCL are brought on by inherited genetic mutations in the *CLN1* gene, which codes for palmitoyl-protein thioesterase 1 (PPT1) and in the *CLN2* gene, which codes for tripeptidyl peptidase I (TPP-I), respectively. As a result of these mutations, the relevant enzyme is either defective or missing, leading to the accumulation of cellular waste product in various cell types. This accumulation eventually interferes with normal cellular and tissue function, and leads to seizures and progressive loss of motor skills, sight and mental capacity. Today, NCL is always fatal.

In January 2009, we completed a six-patient Phase I clinical trial at Oregon Health & Science University Doernbecher Children’s Hospital to evaluate the safety and preliminary efficacy of our HuCNS-SC product candidate as a treatment for infantile and late infantile NCL. This trial was an open label study with two dose levels. Under the trial protocol, patients received immunosuppression for one year following transplantation of the HuCNS-SC cells. In addition to evaluating the safety of HuCNS-SC cells, the trial is also evaluating the ability of the cells to affect the progression of the disease. We expect to complete data analysis and to report the trial results in mid 2009. We believe this clinical trial was the first FDA-approved trial to use purified human neural stem cells as a potential therapeutic agent.

Our preclinical data demonstrate that HuCNS-SC cells, when transplanted in a mouse model of infantile NCL, engraft, migrate throughout the brain, produce the missing PPT1 enzyme, measurably reduce the toxic storage material in the brain, and protect host neurons so that more of them survive. In addition, we have shown that the lifetime of the mice transplanted with HuCNS-SC cells is extended compared to the control group. We have also demonstrated *in vitro* that HuCNS-SC cells produce TPP-I, the enzyme that is deficient in late infantile NCL.

Other Lysosomal Storage Diseases.

NCL, or Batten disease, is one of a group of approximately 46 lysosomal storage diseases (LSDs). All LSDs are caused by defective or missing proteins involved in lysosomal function and some LSDs can be treated by enzyme replacement therapies. Examples of enzyme replacement products already approved are Cerezyme™ for Gaucher disease, Fabryzyme™ for Fabry disease, Myozyme® for Pompe disease, Aldurazyme™ for MPS I, and Naglazyme™ for MPS VI. All of these approved products, however, address LSDs which primarily affect peripheral organs and not the central nervous system. About half of the lysosomal storage diseases, however, do primarily affect the central nervous system; enzyme replacement therapy is not currently a practical treatment option for this subset of LSDs because enzymes are typically too large to cross the blood-brain barrier. We believe that transplanting HuCNS-SC cells directly into the CNS may have the potential to treat some LSDs that affect the CNS by supplying missing enzymes to the brain. In addition to infantile and late infantile NCL, we have found that HuCNS-SC cells can produce the relevant enzyme in a number of other LSDs that affect the CNS.

Pelizaeus-Merzbacher Disease (PMD).

Pelizaeus-Merzbacher Disease, a rare, degenerative, central nervous system disorder, is one of a group of genetic disorders known as leukodystrophies. Leukodystrophies involve abnormal growth of the myelin sheath which is the fatty substance — or insulator — on nerve fibers in the brain and spinal cord. PMD is most commonly caused by a genetic mutation that affects an important protein found in myelin, proteolipid protein (PLP). PMD is most frequently diagnosed in early childhood and is associated with abnormal eye movements, abnormal muscle function, and in some cases, seizures. The disease form in early infancy is referred to as connatal PMD and diagnosis in later childhood is most typically associated with the classic form. The neurological course of both forms is marked by progressive deterioration resulting in premature death.

In December 2008, the FDA approved our Investigational New Drug application (IND) to initiate a Phase I clinical trial of our HuCNS-SC product candidate for PMD. We expect to begin enrolling patients in this trial in

2009 and that the trial will take twelve to eighteen months to complete. In our preclinical research, we have shown that HuCNS-SC cells differentiate into oligodendrocytes, the myelin producing cells, and produce myelin. We have transplanted HuCNS-SC cells into the brain of the mutant shiverer mouse, which is deficient in myelin, and shown widespread engraftment of human cells that matured into oligodendrocytes, and that the human oligodendrocytes myelinated the mouse axons.

Other Myelin Disorders.

Loss of myelin characterizes conditions such as multiple sclerosis, cerebral palsy and certain genetic disorders (for example, Krabbe's disease and metachromatic leukodystrophy), and also plays a role in certain spinal cord indications. Based on our preclinical data showing that HuCNS-SC cells differentiate into oligodendrocytes and that these oligodendrocytes myelinate host axons, we believe our HuCNS-SC product candidate may have applicability to myelin disorders. In addition, in collaboration with Dr. Stephen Back at the Oregon Health & Science University, we are attempting to detect human myelin production by HuCNS-SC cells using magnetic resonance imaging.

Spinal Cord Injury.

Stem cells may have the potential to treat various spinal cord indications. Using a mouse model of spinal cord injury, our collaborators, Drs. Aileen Anderson and Brian Cummings of the Reeve-Irvine Center at the University of California, have shown that HuCNS-SC cells have the potential to protect and regenerate damaged nerves and nerve fibers, and that injured mice transplanted with our human neural stem cells showed improved motor function compared to control animals. Inspection of the spinal cords from the treated mice showed significant levels of human neural cells derived from the transplanted stem cells. Some of these cells were oligodendrocytes, the specialized neural cell that forms the myelin sheath around axons, while others had become neurons and showed evidence of synapse formation, a requirement for proper neuronal function. Drs. Anderson and Cummings then selectively ablated the human cells, and found that the functional improvement was lost, thus demonstrating that the human cells had played a direct role in the functional recovery of the transplanted mice. We are continuing preclinical development on our HuCNS-SC product candidate for various spinal cord indications.

Retinal Disorders.

The retina is a thin layer of neural cells that lines the back of the eye and is responsible for converting external light into neural signals; loss of function in retinal cells leads to impairment or loss of vision. The most common forms of retinal degeneration are age-related macular degeneration and retinitis pigmentosa. Published studies have shown that in a well-established animal model of retinal degeneration, the Royal College of Surgeons (RCS) rat, human neural stem cells protect retinal function and thereby preserve vision. In the RCS model, a genetic mutation causes dysfunction of the retinal pigmented cells, which leads to progressive loss of the photoreceptors and ultimately, loss of visual function. These studies indicate that our HuCNS-SC cells could have potential clinical application as a treatment for retinal degeneration.

In January 2008, we entered into a research collaboration with Oregon Health & Science University Casey Eye Institute to evaluate engraftment and potential applicability of our HuCNS-SC cells in retinal disorders. In November 2008, we presented preclinical results showing that transplanting our HuCNS-SC cells prevented visual impairment in the RCS rat. In the study, our collaborators at the Casey Eye Institute, Drs. Raymond Lund and Peter Francis, transplanted HuCNS-SC cells into one eye of 21-day-old RCS rats while keeping the opposite eye as the control, and demonstrated that the HuCNS-SC cells survived the transplants and engrafted, and the eyes transplanted with the cells showed preservation of the photoreceptors and stabilization of visual function. We are continuing preclinical studies of our HuCNS-SC cells as a potential treatment for retinal disorders.

Other Neural Collaborations.

We have established a number of research collaborations to assess both the *in vitro* potential of the HuCNS-SC cells and the effects of transplanting HuCNS-SC cells into preclinical animal models, including a collaboration with researchers at the Stanford University School of Medicine to evaluate our human neural stem cells in animal models

of stroke. The results of these studies demonstrate the targeted migration of the cells toward the stroke lesion and differentiation toward the neuronal lineage. Another study with researchers at Stanford's School of Medicine demonstrated that HuCNS-SC cells labeled with magnetic nanoparticles could non-invasively track the survival and migration of human cells within the brain. In addition, we concluded an NIH-funded collaboration with Dr. George A. Carlson of the McLaughlin Research Institute to investigate the role of Alzheimer's plaques in neuronal cell death in Alzheimer's disease. Under the collaboration, Dr. Carson transplanted HuCNS-SC cells into mouse models of Alzheimer's disease and the cells showed robust engraftment in an environment riddled with Alzheimer's plaques.

Liver Program

According to the American Association for the study of Liver Diseases website, approximately 25 million Americans are afflicted with liver-related disease each year. To our knowledge there currently are no effective, long-term treatments for many of these. Liver stem or progenitor cells may be useful in the treatment of some of these diseases, such as hepatitis, liver failure, blood-clotting disorder, cirrhosis, and liver cancer. A source of defined human cells capable of engraftment and substantial liver regeneration could provide a cellular therapy or cell-based therapeutic product available to a wider patient base than whole liver transplants.

We have identified and isolated a cell population that we call human liver engrafting cells (hLEC) which can be derived from all types of human livers, including those that would not otherwise be used for liver transplantation. When tested *in vitro*, hLEC demonstrate essential liver enzymatic functions, such as detoxification (cytochrome P450) and conversion of toxic ammonia to urea. When transplanted into immunodeficient mice with a metabolic defect, hLEC engraft and show basic function of hepatocytes. Specifically, hLEC produce the human protein deficient in this animal model as well as human albumin and alpha-1-antitrypsin and the engrafted human cells store glycogen and form structural elements for bile and drug excretion from the liver.

In September 2007, we entered into a research collaboration with Belgium's Université Catholique de Louvain (UCL) and the UCL-affiliated Cliniques Universitaires Saint Luc to further the development of hLEC as a potential cell-based liver therapy. We plan to seek the necessary approvals to initiate a clinical study to evaluate hLEC as a potential cellular therapy, with the initial indication likely to be a liver-based metabolic disorder characterized by an enzyme deficiency.

We hold a portfolio of issued and allowed patents in the liver field. See "Patents, Proprietary Rights and Licenses," below.

Manufacturing

We have made considerable investments in our manufacturing operations. We believe we have the ability to process cells suitable for use in our ongoing and planned research and development activities and clinical trials.

Marketing

Because of the early stage of our stem and progenitor cell programs, we have not yet addressed questions of channels of distribution and marketing of potential future products.

Patents, Proprietary Rights and Licenses

We believe that proprietary protection of our inventions will be critical to our future business. We vigorously seek out intellectual property that we believe might be useful in connection with our products, and have an active program of protecting our intellectual property. We may also from time to time seek to acquire licenses to important externally developed technologies.

We have exclusive or non-exclusive rights to a portfolio of patents and patent applications related to various stem and progenitor cells and methods of deriving and using them. These patents and patent applications relate to compositions of matter, methods of obtaining such cells, and methods for preparing, transplanting and utilizing such cells. As of December 31, 2008, our U.S. patent portfolio included approximately 50 issued or allowed U.S. patents from over 25 separate patent families. Three of our U.S. patents issued in 2008: (i) U.S. Patent No. 7,361,505,

(ii) U.S. Patent No. 7,344,857, and (iii) U.S. Patent No. 7,381,561. These new patents have further strengthened our already extensive patent portfolio, which, we believe, gives us a competitive advantage, especially in the emerging field of neural stem cells, because our patents broadly cover methods for identification, isolation, expansion, and transplantation of neural stem cells as well as their use in drug discovery and testing.

We also have foreign counterparts to a majority of our U.S. patents and applications; a substantial number of these have issued in various countries, making a total of over 150 granted or allowed non-U.S. patents as of December 31, 2008.

Among our significant U.S. patents are:

- U.S. Patent No. 5,968,829, entitled “Human CNS Neural Stem Cells,” which covers our composition of matter for human CNS stem cells;
- U.S. Patent No. 7,361,505, entitled “Multipotent neural stem cell compositions,” which covers human neural stem cells derived from any tissue source, including embryonic, fetal, juvenile, or adult tissue;
- U.S. Patent No. 7,153,686, entitled “Enriched Central Nervous System Stem Cell and Progenitor Cell Populations, and Methods for Identifying, Isolating and Enriching such Populations,” which claims the composition of matter of various antibody-selected neural stem cell populations;
- U.S. Patent No. 6,777,233, entitled “Cultures of Human CNS Neural Stem Cells,” which discloses a neural stem cell culture with a doubling rate of 5 to 10 days;
- U.S. Patent No. 6,497,872, entitled “Neural transplantation using proliferated multipotent neural stem cells and their progeny,” which covers transplanting any neural stem cells or their differentiated progeny, whether the cells have been cultured in suspension or as adherent cells, for the treatment of any disease;
- U.S. Patent No. 6,468,794, entitled “Enriched central nervous system stem cell and progenitor cell populations, and methods for identifying, isolating and enriching for such populations,” which covers the identification and purification of the human CNS stem cell;
- U.S. Patent Nos. 6,238,922 and 7,049,141, both entitled “Use of collagenase in the preparation of neural stem cell cultures,” which describe methods to advance the in vivo culture and passage of human CNS stem cells that result in a 100-fold increase in CNS stem and progenitor cell production after 6 passages;
- U.S. Patent No. 5,851,832, entitled “In Vitro growth and proliferation of multipotent neural stem cells and their progeny,” which covers our methods for selecting the human CNS cell cultures containing central nervous system stem cells, for compositions of human CNS cells expanded by these methods, and for use of cells derived from these cultures in human transplantation;
- U.S. Patent No. 6,294,346, entitled “Use of multipotent neural stem cells and their progeny for the screening of drugs and other biological agents,” which describes the use of human neural stem cells as a tool for screening the effects of drugs and other biological agents on such cells, such as small molecule toxicology studies;
- U.S. Patent No. 7,211,404, entitled “Liver engrafting cells, assays, and uses thereof,” which covers the isolation and use of an enriched population of hepatic liver engrafting cells; and
- U.S. Patent No. 7,381,261, entitled “Enriched central nervous system stem cell and progenitor cell populations, and methods for identifying, isolating and enriching for such populations,” which covers the use of additional monoclonal antibodies for the prospective isolation of rare cells from human neural tissue.

We also rely upon trade-secret protection for our confidential and proprietary information, know-how, and we take active measures to control access to this information. We believe that our know-how will also provide a significant competitive advantage.

Our policy is to require our employees, consultants and significant scientific collaborators and sponsored researchers to execute confidentiality agreements upon the commencement of any employment or consulting relationship with us. These agreements generally provide that all confidential information developed or made

known to the individual by us during the course of the individual's relationship with us is to be kept confidential and not disclosed to third parties except in specific circumstances. In the case of employees and consultants, the agreements generally provide that all inventions conceived by the individual in the course of rendering services to us shall be our exclusive property.

Licenses with Research Institutions

We have entered into a number of research-plus-license agreements with academic organizations, including The Scripps Research Institute (Scripps), the California Institute of Technology (Cal Tech) and the Oregon Health & Science University (OHSU). The research components of these agreements have been concluded and have resulted in a number of licenses for resultant technology. Under these license agreements, we are typically subject to obligations of due diligence and the requirement to pay royalties on products that use patented technology licensed under these agreements. The license agreements with these institutions relate largely to stem or progenitor cells or to processes and methods for the isolation, identification, expansion, or culturing of stem or progenitor cells. Generally speaking, these license agreements will terminate upon expiration, revocation or invalidation of the patents licensed to us, unless governmental regulations require a shorter term. They also will terminate earlier if we breach our obligations under the agreement and do not cure the breach or if we declare bankruptcy. We can terminate these license agreements at any time upon notice.

Pursuant to the terms of our license agreement with Cal Tech, we must pay $10,000 upon the issuance of the first patent in each family licensed to us under the relevant agreement and $5,000 on the first anniversary of the issuance of each such patent, payable in cash or common stock at our option. We have paid $60,000 on account of these patents through December 31, 2008; the $10,000 due in 2008 was paid in common stock (6,924 shares). These amounts are creditable against royalties we must pay under the license agreements. The maximum royalties that we will have to pay to Cal Tech will be $2 million per year, with an overall maximum of $15 million. Once we pay the $15 million maximum royalty, the licenses will become fully paid and irrevocable. In August 2002 we acquired an additional license from Cal Tech to different technology, pursuant to which we issued 27,535 shares of our common stock with a market value of approximately $35,000; we have also issued 9,535 shares of our common stock with a market value of approximately $15,000 to Cal Tech on the issuance of two patents covered under this additional license.

In 2008 we terminated our license agreements with Scripps.

Licenses with Commercial Entities

NeuroSpheres, Ltd.

In March 1994, we entered into a contract research and license agreement with NeuroSpheres, Ltd., which was clarified in a license agreement dated as of April 1, 1997. Under the agreement as clarified, we obtained an exclusive patent license from NeuroSpheres in the field of transplantation, subject to a limited right of NeuroSpheres to purchase a nonexclusive license from us, which right was not exercised and has expired. We have developed additional intellectual property relating to the subject matter of the license. We entered into an additional license agreement with NeuroSpheres as of October 30, 2000, under which we obtained an exclusive license in the field of non-transplant uses, such as drug discovery and drug testing and clarified our rights under NeuroSpheres patents for generating cells of the blood and immune system from neural stem cells. Together, our rights under the licenses are exclusive for all uses of the technology. We made up-front payments to NeuroSpheres of 65,000 shares of our common stock in October 2000 and $50,000 in January 2001, and we will make additional cash payments when milestones are achieved under the terms of the October 2000 agreement. In addition, in October 2000 we reimbursed NeuroSpheres for patent costs amounting to $341,000. Milestone payments, payable at various stages in the development of potential products, would total $500,000 for each product that is approved for market. In addition, beginning in 2004, annual payments of $50,000 became due, payable by the last day of the year and fully creditable against royalties due to NeuroSpheres under the October 2000 Agreement. Our agreements with NeuroSpheres will terminate at the expiration of all patents licensed to us, but can terminate earlier if we breach our obligations under the agreement and do not cure the breach, or if we declare bankruptcy.

On July 9, 2008, we amended our 1997 and 2000 license agreements with NeuroSpheres. Six of the patents covered by the license agreements are the basis of our patent infringement suits against Neuralstem. Under the terms of the amendment, we agreed to pay all reasonable litigation costs, expenses and attorney's fees incurred by NeuroSpheres in the declaratory judgment suit between us and Neuralstem. In return, we are entitled to off-set all litigation costs incurred in that suit against amounts that would otherwise be owed under the license agreements, such as annual maintenance fees, milestones and royalty payments.

ReNeuron Limited

In July 2005, we entered into an agreement with ReNeuron Limited, a wholly owned subsidiary of ReNeuron Group plc, a listed UK corporation (collectively referred to as "ReNeuron"). As part of the agreement, we granted ReNeuron a license that allows ReNeuron to exploit their "c-mycER" conditionally immortalized adult human neural stem cell technology for therapy and other purposes. We received shares of ReNeuron common stock, as well as a cross-license to the exclusive use of ReNeuron's technology for certain diseases and conditions, including lysosomal storage diseases, spinal cord injury, cerebral palsy, and multiple sclerosis. The agreement also provides for full settlement of any potential claims that either we or ReNeuron might have had against the other in connection with any putative infringement of certain of each party's patent rights prior to the effective date of the agreement. In July and August 2005 we received approximately 8,836,000 ordinary shares of ReNeuron common stock (net of approximately 104,000 shares that were transferred to NeuroSpheres), and subsequently, in 2006 and 2007, as a result of certain anti-dilution provisions in the agreement, we received approximately 1,261,000 more shares, net of approximately 18,000 shares that were transferred to NeuroSpheres. In February 2007, we sold 5,275,000 shares for net proceeds of approximately $3,077,000. In the first quarter of 2009, we sold in aggregate, approximately 2,900,000 more shares and received net proceeds of approximately $512,000. As of March 10, 2009, we held approximately 1,922,000 shares of ReNeuron as marketable equity securities. See Note 2 "Financial Instruments — ReNeuron" and Note 15 "Subsequent Events" in Part II, Item 8 of this Form 10-K and "Quantitative and Qualitative Disclosures about Market Risk" in Part I, Item 7A of this Form 10-K for further information.

Stem Cell Therapeutics Corp.

In August 2006, we entered into an agreement with Stem Cell Therapeutics Corp. (SCT), a Canadian corporation listed on the Toronto Stock Exchange, granting it a non-exclusive, royalty-bearing license to use several of our patents for treating specified diseases of the central nervous system; the grant does not include any rights to cell transplantation. SCT granted us a royalty-free non-exclusive license to certain of its patents for research and development and a royalty-bearing non-exclusive license for certain commercial purposes. SCT paid an up-front license fee; the license also provides for other payments including annual maintenance, milestones and royalties.

Other Commercial Licenses

In 2002, we issued a license to BioWhittaker, Inc. for the exclusive right to make, sell and distribute one of our proprietary cells for the research market only. BioWhittaker was acquired by Cambrex Corporation, and the relevant Cambrex division was subsequently acquired by Lonza Group. This license is not expected to generate material revenue.

In 2003, we issued a non-exclusive license to StemCell Technologies, Inc. to make, use and sell certain proprietary mouse and rat neural stem cells and in 2004, we issued a non-exclusive license culture media for all mammalian neural stem cells.

We issued a non exclusive license to R&D Systems to make, use and sell certain stem cell expansion kits, also for the research market. These licenses are not expected to generate material revenue.

Competition

In most instances, the targeted indications for our initial products in development have no effective long-term therapies at this time. However, we do expect that our initial products will have to compete with a variety of therapeutic products and procedures. Other pharmaceutical and biotechnology companies currently offer a number of pharmaceutical products to treat lysosomal storage diseases, neurodegenerative and liver diseases, and other

diseases for which our technologies may be applicable. Many pharmaceutical and biotechnology companies are investigating new drugs and therapeutic approaches for the same purposes, which may achieve new efficacy profiles, extend the therapeutic window for such products, alter the prognosis of these diseases, or prevent their onset. We believe that our products, when and if successfully developed, will compete with these products principally on the basis of improved and extended efficacy and safety and their overall economic benefit to the health care system. The market for therapeutic products that address degenerative diseases is large and competition is intense. Many companies have significant products approved or in development that could be competitive with our potential products. We expect competition to increase.

Competition for any stem and progenitor cell products that we may develop may be in the form of existing and new drugs, other forms of cell transplantation, ablative and simulative procedures, medical devices, and gene therapy. We believe that some of our competitors are also trying to develop stem and progenitor cell-based technologies. We may also face competition from companies that have filed patent applications relating to the use of genetically modified cells to treat disease, disorder or injury. In the event our therapies should require the use of such genetically modified cells, we may be required to seek licenses from these competitors in order to commercialize certain of our proposed products, and such licenses may not be granted.

If we develop products that receive regulatory approval, they would then have to compete for market acceptance and market share. For certain of our potential products, an important success factor will be the timing of market introduction of competitive products. This is a function of the relative speed with which we and our competitors can develop products, complete the clinical testing and approval processes, and supply commercial quantities of a product to market. These competitive products may also impact the timing of clinical testing and approval processes by limiting the number of clinical investigators and patients available to test our potential products.

We expect that all of these products will compete with our potential stem and progenitor cell-based products based on efficacy, safety, cost, and intellectual property positions. While we believe that these will be the primary competitive factors, other factors include, in certain instances, obtaining marketing exclusivity under the Orphan Drug Act, availability of supply, manufacturing, marketing and sales expertise and capability, and reimbursement coverage.

Government Regulation

Our research and development activities and the future manufacturing and marketing of our potential products are, and will continue to be, subject to regulation for safety and efficacy by numerous governmental authorities in the United States and other countries.

U.S. Regulations

In the United States, pharmaceuticals, biologicals and medical devices are subject to rigorous regulation by the U.S. Food and Drug Administration (FDA). The Federal Food, Drug and Cosmetic Act, the Public Health Service Act, applicable FDA regulations, and other federal and state statutes and regulations govern, among other things, the testing, manufacture, labeling, storage, export, record keeping, approval, marketing, advertising, and promotion of our potential products. Product development and approval within this regulatory framework takes a number of years and involves significant uncertainty combined with the expenditure of substantial resources. In addition, many jurisdictions, both federal and state, have restrictions on the use of fetal tissue.

FDA Marketing Approval

The steps required before our potential products may be marketed in the United States include:

Steps	Considerations
1. Preclinical laboratory and animal tests	Preclinical tests include laboratory evaluation of the cells and the formulation intended for use in humans for quality and consistency. *In vivo* studies are performed in normal animals and specific disease models to assess the potential safety and efficacy of the cell therapy product.
2. Submission of an Investigational New Drug (IND) application	The IND is a regulatory document submitted to the FDA with preclinical and manufacturing data, a proposed development plan and a proposed protocol for a study in humans. The IND becomes effective 30 days following receipt by the FDA, provided there are no questions, requests for delay or objections from the FDA. If the FDA has questions or concerns, it notifies the sponsor, and the IND will then be on clinical hold until the sponsor responds satisfactorily. In general an IND must become effective before U.S. human clinical trials may commence.
3. Human clinical trials	Clinical trials involve the evaluation of a potential product under the supervision of a qualified physician, in accordance with a protocol that details the objectives of the study, the parameters to be used to monitor safety and the efficacy criteria to be evaluated. Each protocol is submitted to the FDA as part of the IND. The protocol for each clinical study must be approved by an independent Institutional Review Board (IRB) of the institution at which the study is conducted and the informed consent of all participants must be obtained. The IRB reviews the existing information on the product, considers ethical factors, the safety of human subjects, the potential benefits of the therapy, and the possible liability of the institution. The IRB is responsible for ongoing safety assessment of the subjects during the clinical investigation. Clinical development is traditionally conducted in three sequential phases, Phase I, II and III. Phase I studies for a product are designed to evaluate safety in a small number of subjects in a selected patient population by assessing adverse effects, and may include multiple dose levels. This study may also gather preliminary evidence of a beneficial effect on the disease.

Steps	Considerations
	Phase II studies typically involve a larger, but still limited, patient population to determine biological and clinical effects of the investigational product and to identify possible adverse effects and safety risks of the product in the selected patient population. Phase III studies are undertaken to demonstrate clinical benefit or effect in a statistically significant manner and to test further for safety within a broader patient population, generally at multiple study sites. The FDA continually reviews the clinical trial plans and results and may suggest changes or may require discontinuance of any trial at any time if significant safety issues arise.
4. Submission of a Biologics Licensing Application (BLA)	The results of the preclinical studies and clinical studies are submitted to the FDA in an application for marketing approval authorization.
5. Regulatory Approval	The testing and approval process will require substantial time, effort and expense. The time for approval is affected by a number of factors, including relative risks and benefits demonstrated in clinical trials, the availability of alternative treatments and the severity of the disease. Additional animal studies or clinical trials may be requested during the FDA review period, which might add to that time. FDA approval of the application(s) is required prior to any commercial sale or shipment of the therapeutic product. Biologic product manufacturing facilities located in certain states also may be subject to separate regulatory and licensing requirements.
6. Post-marketing studies	After receiving FDA marketing approval for a product for an initial indication, further clinical trials may be required to gain approval for the use of the product for additional indications. The FDA may also require post-marketing testing and surveillance to monitor for adverse effects, which could involve significant expense, or the FDA may elect to grant only conditional approvals subject to collection of post-marketing data. In addition, the recently enacted FDA Amendments Act of 2007 provides the FDA with expanded authority over drug products after approval, including the authority to require post-approval studies and clinical trials, labeling changes based on new safety information, and compliance with risk evaluation and mitigation strategies approved by the FDA.

FDA Manufacturing Requirements

Among the conditions for product licensure is the requirement that the prospective manufacturer's quality control and manufacturing procedures conform to the FDA's current good manufacturing practice (GMP) requirements. Even after a product's licensure approval, its manufacturer must comply with GMP on a continuing basis, and what constitutes GMP may change as the state of the art of manufacturing changes. Domestic manufacturing facilities are subject to regular FDA inspections for GMP compliance, which are normally held at least every two years. Foreign manufacturing facilities are subject to periodic FDA inspections or inspections by

the foreign regulatory authorities. Domestic manufacturing facilities may also be subject to inspection by foreign authorities.

Orphan Drug Act

The Orphan Drug Act provides incentives to drug manufacturers to develop and manufacture drugs for the treatment of diseases or conditions that affect fewer than 200,000 individuals in the United States. Orphan drug status can also be sought for treatments for diseases or conditions that affect more than 200,000 individuals in the United States if the sponsor does not realistically anticipate its product becoming profitable from sales in the United States. We may apply for orphan drug status for certain of our therapies. Under the Orphan Drug Act, a manufacturer of a designated orphan product can seek tax benefits, and the holder of the first FDA approval of a designated orphan product will be granted a seven-year period of marketing exclusivity in the United States for that product for the orphan indication. While the marketing exclusivity of an orphan drug would prevent other sponsors from obtaining approval of the same compound for the same indication, it would not prevent other compounds or products from being approved for the same use including, in some cases, slight variations on the originally designated orphan product.

FDA Human Cell and Tissue Regulations

Our research and development is based on the use of human stem and progenitor cells. The FDA has initiated a risk-based approach to regulating Human Cell, Tissue and Cellular and Tissue-based (HCT/P) products and has published current Good Tissue Practice (GTP) regulations. As part of this approach, the FDA has published final rules for registration of establishments that recover, process, store, label, package, or distribute HCT/P products or that screen or test the donor of HCT/P products, and for the listing of such products. In addition, the FDA has published rules for determining the suitability of donors of cells and tissue, the eligibility of the cells and tissues for clinical use and for current good tissue practice for manufacturers using them, which came into effect in May 2005. We have adopted policies and procedures to comply with these regulations.

Other Regulations

In addition to safety regulations enforced by the FDA, we are also subject to regulations under the Occupational Safety and Health Act, the Environmental Protection Act, the Toxic Substances Control Act, and other present and potential future foreign, federal, state, and local regulations.

International Law

Outside the United States, we will be subject to regulations that govern the import of drug products from the United States or other manufacturing sites and foreign regulatory requirements governing human clinical trials and marketing approval for our products. The requirements governing the conduct of clinical trials, product licensing, pricing, and reimbursements vary widely from country to country. In particular, the European Union (EU) is revising its regulatory approach to biotechnology products, and representatives from the United States, Japan and the EU are in the process of harmonizing and making more uniform the regulations for the registration of pharmaceutical products in these three markets. This process increases uncertainty over regulatory requirements in our industry. Furthermore, human stem and progenitor cells may be regulated in the EU and other countries as transplant material or as a somatic cell therapy medicinal product, depending on the processing, indication and country.

Environment

We have made, and will continue to make, expenditures for environmental compliance and protection. Expenditures for compliance with environmental laws have not had, and are not expected to have, a material effect on our capital expenditures, results of operations or competitive position.

Reimbursement and Health Care Cost Control

Reimbursement for the costs of treatments and products such as ours from government health administration authorities, private health insurers and others, both in the United States and abroad, is a key element in the success of new health care products. Significant uncertainty often exists as to the reimbursement status of newly approved health care products.

The revenue and profitability of some health care-related companies have been affected by the continuing efforts of governmental and third party payors to contain or reduce the cost of health care through various means. Payors are increasingly attempting to limit both coverage and the levels of reimbursement for new therapeutic products approved for marketing by the FDA, and are refusing, in some cases, to provide any coverage for uses of approved products for disease indications for which the FDA has not granted marketing approval. In certain foreign markets, pricing or profitability of prescription pharmaceuticals is subject to government control. In the United States, there have been a number of federal and state proposals to implement government control over health care costs.

Employees

As of December 31, 2008, we had 55 full-time employees, 16 of whom have Ph.D., M.D. or D.V.M. degrees. 43 full-time employees work in research and development and laboratory support services. No employees are covered by collective bargaining agreements.

Scientific Advisory Board

Members of our Scientific Advisory Board provide us with strategic guidance in regard to our research and product development programs, as well as assistance in recruiting employees and collaborators. Each Scientific Advisory Board member has entered into a consulting agreement with us. These consulting agreements specify the compensation to be paid to the consultant and require that all information about our products and technology be kept confidential. All of the Scientific Advisory Board members are employed by employers other than us and may have commitments to, or consulting or advising agreements with, other entities that limit their availability to us. The Scientific Advisory Board members have generally agreed, however, for so long as they serve as consultants to us, not to provide any services to any other entities that would conflict with the services the member provides to us. We are entitled to terminate the arrangements if we determine that there is such a conflict. Members of our Scientific Advisory Board offer consultation on specific issues encountered by us as well as general advice on the directions of appropriate scientific inquiry for us. In addition, the Scientific Advisory Board members assist us in assessing the appropriateness of moving our projects to more advanced stages. The following persons are members of our Scientific Advisory Board:

- Irving L. Weissman, M.D., Chairman of our Scientific Advisory Board, is the Virginia and Daniel K. Ludwig Professor of Cancer Research, Professor of Pathology and Professor of Developmental Biology at Stanford University, Director of the Stanford University Institute for Stem Cell Biology and Regenerative Medicine, and Director of the Stanford Comprehensive Cancer Center, all in Stanford, California. Dr. Weissman's lab was responsible for the discovery and isolation of the first ever mammalian tissue stem cell, the hematopoietic (blood-forming) stem cell. Dr. Weissman was responsible for the formation of three stem cell companies, SyStemix, Inc., StemCells, Inc. and Cellerant, Inc. Dr. Weissman co-discovered the mammalian and human hematopoietic stem cells and the human neural stem cell. He has extended these stem cell discoveries to cancer and leukemia, discovering the leukemic stem cells in human and mouse acute or blast crisis myeloid leukemias, and has enriched the cancer stem cells in several human brain cancers as well as human head and neck squamous cell carcinoma. Past achievements of Dr. Weissman's laboratory include identification of the states of development between stem cells and mature blood cells, the discovery and molecular isolation and characterization of lymphocyte and stem cell homing receptors, and identification of the states of thymic lymphocyte development. His laboratory at Stanford has developed accurate mouse models of human leukemias, and has shown the central role of inhibition of programmed cell death in that process. He has also established the evolutionary origins of pre-vertebrate stem cells, and identified and cloned the transplantation genes that prevent their passage from one organism to another. Dr. Weissman has

been elected to the National Academy of Science, the Institute of Medicine of the National Academies, the American Academy of Arts and Sciences, the American Society of Microbiology, and several other societies. He has received the Kaiser Award for Excellence in Preclinical Teaching, the Pasarow Foundation Award for Cancer Research, the California Scientist of the Year (2002), the Kovalenko Medal of the National Academy of Sciences, the Elliott Joslin Medal for Diabetes Research, the de Villiers Award for Leukemia Research, the Irvington Award for Immunologist of the Year, the Bass Award of the Society of Neurosurgeons, the New York Academy of Medicine Award for Medical Research, the Alan Cranston Award for Aging Research, the Linus Pauling Award for Biomedical Research, the E. Donnall Thomas Award for Hematology Research, the van Bekkum Award for Stem Cell Research, the Outstanding Investigator Award from the National Institutes of Health, Robert Koch Award for research in the hemopoieteic system, and many other awards.

- David J. Anderson, Ph.D., is Roger W. Sperry Professor of Biology, California Institute of Technology, Pasadena, California and Investigator, Howard Hughes Medical Institute. His laboratory was the first to isolate a multipotent, self-renewing, stem cell for the peripheral nervous system, the first to identify instructive signals that promote the differentiation of these stem cells along various lineages, and the first to accomplish a direct purification of peripheral neural stem cells from uncultured tissue. Dr. Anderson's laboratory also was the first to isolate transcription factors that act as master regulators of neuronal fate. More recently, he has identified signals that tell a neural stem cell to differentiate to oligodendrocytes, the myelinating glia of the central nervous system, as well as factors for astrocyte differentiation. Dr. Anderson is a co-founder of the Company and was a founding member of the scientific advisory board of the International Society for Stem Cell Research. Dr. Anderson also serves on the scientific advisory board of Allen Institute for Brain Science. He has held a presidential Young Investigator Award from the National Science Foundation, a Sloan foundation Fellowship in Neuroscience, and has been Donald D. Matson lecturer at Harvard Medical School. He has received the Charles Judson Herrick Award from the American Association of Anatomy, the 1999 W. Alden Spencer Award in Neurobiology from Columbia University, and the Alexander von Humboldt Foundation Award. Dr. Anderson has been elected to the National Academy of Science and is a member of the American Academy of Arts and Sciences.
- Fred H. Gage, Ph.D., is Professor, Laboratory of Genetics, The Salk Institute for Biological Studies, La Jolla, California and Adjunct Professor, Department of Neurosciences, University of California, San Diego, California. Dr. Gage's lab was the first to discover Neurogenesis in the adult human brain. His research focus is on the development of strategies to induce recovery of function following central nervous system damage. Dr. Gage is a co-founder of StemCells and of BrainCells, Inc., and a member of the scientific advisory board of each. Dr. Gage also serves on the Scientific Advisory Board of Ceregene, Inc, and he is a founding member of the scientific advisory board of the International Society for Stem Cell Research. Dr. Gage has been the recipient of numerous awards, including the 1993 Charles A. Dana Award for Pioneering Achievements in Health and Education, the Christopher Reeves Medal, the Decade of the Brain Medal, the Max-Planck research Prize, and the Pasarow Foundation Award. Professor Gage is a member of the Institute of Medicine, a member of the National Academy of Science, and a Fellow of the American Academy of Arts and Science.

Available Information

The following information can be obtained free of charge through our website at http://www.stemcellsinc.com or by sending an e-mail message to irpr@stemcellsinc.com:

- our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to these reports as soon as reasonably practicable after such material is electronically filed with the Securities and Exchange Commission;
- our policies related to corporate governance, including StemCells' Code of Conduct and Ethics and Procedure for Submission of Complaints; and
- the charters of the Audit Committee, the Compensation & Stock Option Committee and the Corporate Governance & Nominating Committee of our Board of Directors.

The public may read and copy any material we file with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington D.C., 20549. The public may obtain information on the operations of the Public Reference Room by calling the SEC at 1- 800-SEC-0330. The SEC maintains an Internet site, http://www.sec.gov, which contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

Item 1A. ***RISK FACTORS***

This annual report of Form 10-K contains forward looking statements that involve risks and uncertainties. Our business, operating results, financial performance, and share price may be materially adversely affected by a number of factors, including *but not limited to the following risk factors, any one of which could cause actual results to vary materially from anticipated results or from those expressed in any forward-looking statements made by us in this annual report of Form 10-K or in other reports, press releases or other statements issued from time to time. Additional factors that may cause such a difference are set forth elsewhere in this annual report of Form 10-K.*

Risks Related to our Business

Any adverse development relating to our HuCNS-SC product candidate, such as a significant clinical trial failure, could substantially depress our stock price and prevent us from raising additional capital.

At present our ability to progress as a company is significantly dependent on a single product candidate, our HuCNS-SC cells (purified human neural stem cells), and on early stage clinical trials. Any clinical, regulatory or other development that significantly delays or prevents us from completing any of our trials, any material safety issue or adverse side effect to any study participant in any of these trials, or the failure of these trials to show the results expected would likely depress our stock price significantly and could prevent us from raising the substantial additional capital we will need to further develop our cellular technologies. Moreover, any material adverse occurrence in our first clinical trials could substantially impair our ability to initiate clinical trials to test our HuCNS-SC cells in other potential indications. This, in turn, could adversely impact our ability to raise additional capital and pursue our planned research and development efforts in both our CNS and Liver Programs.

We have limited capital resources and we may not obtain the significant additional capital needed to sustain our research and development efforts.

We have limited liquidity and capital resources and must obtain significant additional capital resources in order to sustain our product development efforts, acquire businesses, technologies and intellectual property rights which may be important to our business, continue preclinical and clinical testing of our investigative products, pursue regulatory approvals, acquire capital equipment, laboratory and office facilities, establish production capabilities, maintain and enforce our intellectual property portfolio, and support our general and administrative expenses and other working capital requirements. In addition, if we complete the acquisition of the operating subsidiaries and related assets of Stem Cell Sciences, we will require additional capital resources to continue to develop and grow our business. We rely on cash reserves and proceeds from equity and debt offerings, proceeds from the transfer, license, lease, or sale of our intellectual property rights, equipment, facilities, or investments, and government grants and funding from collaborative arrangements, if obtainable, to fund our operations.

We intend to pursue opportunities for additional fundraising in the future through equity or debt financings, corporate alliances or combinations, grants or collaborative research arrangements, or any combination of these. However, external financing in the current financial environment may be particularly difficult, and the source, timing and availability of any future fundraising will depend principally upon market conditions, interest rates and, more specifically, on progress in our research, preclinical and clinical development programs. Funding may not be available when needed — at all or on terms acceptable to us. While we actively manage our programs and resources in order to conserve cash between fundraising opportunities, our existing capital resources may not be sufficient to fund our operations beyond the next twelve months. If we exhaust our cash reserves and are unable to realize adequate additional fundraising, we may be unable to meet operating obligations and be required to initiate bankruptcy proceedings or delay, scale back or eliminate some or all of our research and product development programs.

Our product development programs are based on novel technologies and are inherently risky.

We are subject to the risks of failure inherent in the development of products based on new technologies. The novel nature of these therapies creates significant challenges in regard to product development and optimization, manufacturing, government regulation, third party reimbursement, and market acceptance. For example, the pathway to regulatory approval for cell-based therapies, including our product candidates, may be more complex and lengthy than the pathway for conventional drugs. These challenges may prevent us from developing and commercializing products on a timely or profitable basis or at all.

Our technology is at an early stage of discovery and development, and we may fail to develop any commercially acceptable or profitable products.

We have incurred significant operating losses and negative cash flows since inception. We have not achieved profitability and may not be able to realize sufficient revenue to achieve or sustain profitability in the future. We have yet to develop any products that have been approved for marketing, and we do not expect to become profitable within the next several years, but rather expect to incur additional and increasing operating losses. Before commercializing any medical product, we will need to obtain regulatory approval from the FDA or from equivalent foreign agencies after conducting extensive preclinical studies and clinical trials that demonstrate that the product candidate is safe and effective. Except for the NCL trial we completed at Oregon Health & Science University (OHSU), we have had no experience conducting human clinical trials. We expect that none of our cell-based therapeutic product candidates will be commercially available for several years, if at all.

While the FDA has approved our IND to initiate a Phase I clinical trial for PMD, there can be no assurance that this clinical trial will be initiated, be completed or result in a successful outcome.

There can be no assurance that our Phase I clinical trial of our proprietary HuCNS-SC product candidate in NCL will result in a successful outcome. We may elect to delay or discontinue other studies or clinical trials based on unfavorable results. Any product developed from, or based on, cellular technologies may fail to:

- survive and persist in the desired location;
- provide the intended therapeutic benefit;
- engraft into existing tissue in the desired manner; or
- achieve therapeutic benefits equal to, or better than, the standard of treatment at the time of testing.

In addition, our products may cause undesirable side effects. Results of preclinical research in animals may not be indicative of future clinical results in humans.

Ultimately if regulatory authorities do not approve our products or if we fail to maintain regulatory compliance, we would be unable to commercialize our products, and our business and results of operations would be harmed. Even if we do succeed in developing products, we will face many potential obstacles such as the need to develop or obtain manufacturing, marketing and distribution capabilities. Furthermore, because transplantation of cells is a new form of therapy, the marketplace may not accept any products we may develop.

Moreover, because our cell-based therapeutic products will be derived from tissue of individuals other than the patient (that is, they will be “non-self” or “allogeneic” transplant products), patients will likely require the use of immunosuppressive drugs. While immunosuppression is now standard in connection with allogeneic transplants of various kinds, such as heart or liver transplants, long-term maintenance on immunosuppressive drugs can result in complications such as infection, cancer, cardiovascular disease, and renal dysfunction. An immunosuppression regimen was used with our therapeutic product candidate in our Phase I clinical trial for NCL, and is included in the proposed trial protocol for our planned PMD trial.

Our success will depend in large part on our ability to develop and commercialize products that treat diseases other than neuronal ceroid lipofuscinosis (Batten disease) and Pelizeaus-Merzbacher Disease (PMD).

Although we have initially focused on evaluating our neural stem cell product for the treatment of infantile and late infantile NCL (Batten disease) and for Pelizeaus-Merzbacher Disease, these diseases are rare and the markets for treating these diseases are small. Accordingly, even if we obtain marketing approval for our HuCNS-SC product candidate for infantile and late infantile NCL or for PMD, in order to achieve profitability, we will likely need to obtain approval to treat additional diseases that present more significant market opportunities.

Acquisitions of companies, businesses or technologies may substantially dilute our stockholders and increase our operating losses.

We may make acquisitions of businesses, technologies or intellectual property rights or otherwise modify our business model in ways we believe to be necessary, useful or complementary to our current product development efforts and cell-based therapeutics business. For example, on March 2, 2009, we announced that we entered into an agreement to acquire the operating subsidiaries and certain other related assets of Stem Cell Sciences. Any such acquisition or change in business activities may require assimilation of the operations, products or product candidates and personnel of the acquired business and the training and integration of its employees, and could substantially increase our operating costs, without any offsetting increase in revenue. Acquisitions may not provide the intended technological, scientific or business benefits and could disrupt our operations and divert our limited resources and management's attention from our current operations, which could harm our existing product development efforts. We have agreed to issue 2,650,000 shares of our common stock in the acquisition of the assets of Stem Cell Sciences, and we would likely issue equity securities to pay for any other future acquisitions. The issuance of equity securities for an acquisition could be substantially dilutive to our stockholders. In addition, our results of operations may suffer because of acquisition-related costs or the post-acquisition costs of funding the development of an acquired technology or product candidates or operation of the acquired business, or due to amortization or impairment costs for acquired goodwill and other intangible assets. Any investment made in, or funds advanced to, a potential acquisition target could also significantly adversely affect our results of operation and could further reduce our limited capital resources. Any acquisition or action taken in anticipation of a potential acquisition or other change in business activities could substantially depress the price of our stock.

We have payment obligations resulting from real property owned or leased by us in Rhode Island, which diverts funding from our cell-based therapeutics research and development.

Prior to our reorganization in 1999 and the consolidation of our business in California, we carried out our former encapsulated cell therapy programs in Lincoln, Rhode Island, where we also had our administrative offices. Although we have vacated the Rhode Island facilities, we remain obligated to make lease payments and payments for operating costs for our former science and administrative facility, which we have leased through June 30, 2013. These costs, before sub-tenant rental income, amounted to approximately $1,825,000 in 2008; our rent payments will increase over the term of the lease, and our operating costs may increase as well. In addition to these costs of our former science and administrative facility, we are obligated to make debt service payments and payments for operating costs of approximately $440,000 per year for our former encapsulated cell therapy pilot manufacturing facility, which we own. We have currently subleased a portion of the science and administrative facility, and we are seeking to sublease the remaining portion, but we cannot be sure that we will be able to keep any part of the facility subleased for the duration of our obligation. We are currently seeking to sublease the pilot manufacturing facility, but may not be able to sublease or sell the facility in the future. These continuing costs significantly reduce our cash resources and adversely affect our ability to fund further development of our cellular technologies. In addition, changes in real estate market conditions and assumptions regarding the length of time it may take us to either fully sublease, assign or sell our remaining interest in the our former research facility in Rhode Island may have a significant impact on and cause large variations in our quarter to quarter results of operations. In 1999, in connection with exiting our former research facility in Rhode Island, we created a reserve for the estimated lease payments and operating expenses related to it. The reserve is periodically re-evaluated and adjusted based on assumptions relevant to real estate market conditions and the estimated time until we can either, fully sublease, assign or sell our remaining interests in the property. At December 31, 2008, the reserve was $5,513,000. For the year 2008, we incurred $1,293,000 in operating expenses net of sub-tenant income for this facility. Expenses for this facility will

fluctuate based on changes in tenant occupancy rates and other operating expenses related to the lease. Even though it is our intent to sublease, assign, sell, or otherwise divest ourselves of our interests in the facility at the earliest possible time, we cannot determine with certainty a fixed date by which such events will occur. In light of this uncertainty, based on estimates, we will periodically re-evaluate and adjust the reserve, as necessary, and we may make significant adverse adjustments to the reserve in the future.

We may be unable to obtain partners to support our cell-based therapeutic product development efforts when needed to commercialize our technologies.

Equity and debt financings alone may not be sufficient to fund the cost of developing our cellular technologies, and we may need to rely on partnering or other arrangements to provide financial support for our cellular discovery and development efforts. In addition, in order to successfully develop and commercialize our technologies, we may need to enter into various arrangements with corporate sponsors, pharmaceutical companies, universities, research groups, and others. While we have engaged, and expect to continue to engage, in discussions regarding such arrangements, we have not reached any agreement, and we may fail to obtain any such agreement on terms acceptable to us. Even if we enter into such arrangements, we may not be able to satisfy our obligations under them or renew or replace them after their original terms expire. Furthermore, these arrangements may require us to grant rights to third parties, such as exclusive marketing rights to one or more products, may require us to issue securities to our collaborators and may contain other terms that are burdensome to us or result in a decrease in our stock price.

If we are unable to protect our patents and proprietary rights, our business, financial condition and results of operations may be materially harmed.

We either own or exclusively license a number of patents and pending patent applications related to various stem and progenitor cells, including human neural stem cell cultures, as well as methods of deriving and using them. The process of obtaining patent protection for products such as those we propose to develop is highly uncertain and involves complex and continually evolving factual and legal questions. The governmental authorities that consider patent applications can deny or significantly reduce the patent coverage requested in an application either before or after issuing the patent. For example, under the procedures of the European Patent Office, third parties may oppose our issued European patents during the relevant opposition period. These proceedings and oppositions could result in substantial uncertainties and cost for us, even if the eventual outcome is favorable to us, and the outcome might not be favorable to us. In the United States, third parties may seek to invalidate or render unenforceable issued patents through a U.S. PTO reexamination process or through the courts; currently two of our patents are the subject of a reexamination proceeding and six of our patents are the subject of litigation. In addition, changes to the laws protecting intellectual property rights could adversely impact the perceived or actual value of our Company. Consequently, we do not know whether any of our pending applications will result in the issuance of patents, whether any of our issued patents will be invalidated or restricted, whether any existing or future patents will provide sufficient protection or significant commercial advantage, or whether others will circumvent these patents, whether or not lawfully. In addition, our patents may not afford us adequate protection from competing products. Moreover, because patents issue for a limited term, our patents may expire before we can commercialize a product covered by the issued patent claims or before we can utilize the patents profitably. Some of our most important patents begin to expire in 2015.

If we learn of third parties who infringe our patent rights, we may decide to initiate legal proceedings to enforce these rights. Patent litigation, including the pending litigation to which we are a party, is inherently unpredictable and highly risky and may result in unanticipated challenges to the validity or enforceability of our intellectual property, antitrust claims or other claims against us, which could result in the loss of these intellectual property rights. Litigation proceedings can be very time-consuming for management and are also very costly and the parties we bring actions against may have significantly greater financial resources than our own. We may not prevail in these proceedings and if we do not prevail we could be liable for damages as well as the costs and attorney fees of our opponents.

Proprietary trade secrets and unpatented know-how are also important to our research and development activities. We cannot be certain that others will not independently develop the same or similar technologies on their own or gain access to our trade secrets or disclose such technology or that we will be able to meaningfully protect

our trade secrets and unpatented know-how. We require our employees, consultants and significant scientific collaborators and sponsored researchers to execute confidentiality agreements upon the commencement of an employment or consulting relationship with us. These agreements may, however, fail to provide meaningful protection or adequate remedies for us in the event of unauthorized use, transfer or disclosure of such information or technology.

If we are unable to obtain necessary licenses to third-party patents and other rights, we may not be able to commercially develop our expected products.

A number of pharmaceutical, biotechnology and other companies, universities and research institutions have filed patent applications or have received patents relating to cell therapy, stem and progenitor cells and other technologies potentially relevant to, or necessary for, our expected products. We cannot predict which, if any, of these applications will issue as patents or how many of these issued patents will be found valid and enforceable. There may also be existing issued patents which we are currently unaware of which would be infringed by the commercialization of one or more of our product candidates. If so, we may be prevented from commercializing these products unless the third party is willing to grant a license to us. We may be unable to obtain licenses to the relevant patents at a reasonable cost, if at all, and may also be unable to develop or obtain alternative non-infringing technology. If we are unable to obtain such licenses or develop non-infringing technology at a reasonable cost, our business could be significantly harmed. Also, any infringement lawsuits commenced against us may result in significant costs, divert our management's attention and result in an award against us for substantial damages, or potentially prevent us from continuing certain operations.

We are aware of intellectual property rights held by third parties that relate to products or technologies we are developing. For example, some aspects of our cell-based therapeutic product candidates involve the use of growth factors, antibodies and other reagents that may, in certain cases, be the subject of third party rights. Before we commercialize any product using these growth factors, antibodies or reagents, we may need to obtain license rights from third parties or use alternative growth factors, antibodies and reagents that are not then the subject of third party patent rights. We currently believe that the commercialization of our products as currently planned will not infringe these third party rights, or, alternatively, that we will be able to obtain necessary licenses or otherwise use alternative non-infringing technology. However, third parties may nonetheless bring suit against us claiming infringement. If we are unable to prove that our technology does not infringe their patents, or if we are unable to obtain necessary licenses or otherwise use alternative non-infringing technology, we may not be able to commercialize any products.

We have obtained rights from companies, universities and research institutions to technologies, processes and compounds that we believe may be important to the development of our products. These licensors, however, may cancel our licenses or convert them to non-exclusive licenses if we fail to use the relevant technology or otherwise breach these agreements. Loss of these licenses could expose us to the risk that our technology infringes the rights of third parties. We can give no assurance that any of these licenses will provide effective protection against our competitors.

We compete with companies that have significant advantages over us.

The market for therapeutic products to treat diseases of, or injuries to, the central nervous system (CNS) is large and competition is intense. The majority of the products currently on the market or in development are small molecule pharmaceutical compounds, and many pharmaceutical companies have made significant commitments to the CNS field. We believe cellular therapies, if proven safe and effective, will have unique properties that will make them desirable over small molecule drugs, none of which currently replace damaged tissue. However, any cell-based therapeutic to treat diseases of, or injuries to, the CNS is likely to face intense competition from the small molecule sector, biologics, as well as medical devices. We expect to compete with a host of companies, some of which are privately owned and some of which have resources far greater than ours.

In the liver field, there are no broad-based therapies for the treatment of liver disease at present. The primary therapy is liver transplantation, which is limited by the availability of matched donor organs. Liver-assist devices, when and if they become available, could also be used to help patients while they await suitably matched organs for

transplantation. Liver transplantation may remain the standard of care even if we successfully develop a cellular therapy. In addition, new therapies may become available before we successfully develop a cell-based therapy for liver disease.

Development of our technologies is subject to, and restricted by, extensive government regulation, which could impede our business.

Our research and development efforts, as well as any ongoing or future clinical trials, and the manufacturing and marketing of any products we may develop, will be subject to, and restricted by, extensive regulation by governmental authorities in the United States and other countries. The process of obtaining FDA and other necessary regulatory approvals is lengthy, expensive and uncertain. FDA and other legal and regulatory requirements applicable to the development and manufacture of the cells and cell lines required for our preclinical and clinical products could substantially delay or prevent us from producing the cells needed to initiate additional clinical trials. We or our collaborators may fail to obtain the necessary approvals to commence or continue clinical testing or to manufacture or market our potential products in reasonable time frames, if at all. In addition, the U.S. Congress and other legislative bodies may enact regulatory reforms or restrictions on the development of new therapies that could adversely affect the regulatory environment in which we operate or the development of any products we may develop.

We base our research and development on the use of human stem and progenitor cells obtained from human tissue, including fetal tissue. The U.S. federal and state governments and other jurisdictions impose restrictions on the acquisition and use of fetal tissue, including those incorporated in federal Good Tissue Practice, or GTP, regulations. These regulatory and other constraints could prevent us from obtaining cells and other components of our products in the quantity or quality needed for their development or commercialization. These restrictions change from time to time and may become more onerous. Additionally, we may not be able to identify or develop reliable sources for the cells necessary for our potential products — that is, sources that follow all state and federal laws and guidelines for cell procurement. Certain components used to manufacture our stem and progenitor cell product candidates will need to be manufactured in compliance with the FDA's Good Manufacturing Practices, or GMP. Accordingly, we will need to enter into supply agreements with companies that manufacture these components to GMP standards.

Noncompliance with applicable requirements both before and after approval, if any, can subject us, our third party suppliers and manufacturers, and our other collaborators to administrative and judicial sanctions, such as, among other things, warning letters, fines and other monetary payments, recall or seizure of products, criminal proceedings, suspension or withdrawal of regulatory approvals, interruption or cessation of clinical trials, total or partial suspension of production or distribution, injunctions, limitations on or the elimination of claims we can make for our products, and refusal of the government to enter into supply contracts or fund research, or delay in approving or refusal to approve new drug applications.

We are dependent on the services of key personnel.

We are highly dependent on the principal members of our management and scientific staff and some of our outside consultants, including the members of our scientific advisory board, our chief executive officer, our vice presidents, and the heads of key departments or functions within the company. Although we have entered into employment agreements with some of these individuals, they may terminate their agreements at any time. In addition, our operations are dependent upon our ability to attract and retain additional qualified scientific and management personnel. We may not be able to attract and retain the personnel we need on acceptable terms given the competition for experienced personnel among pharmaceutical, biotechnology and health care companies, universities and research institutions.

Our activities involve hazardous materials and experimental animal testing; improper handling of these animals and materials by our employees or agents could expose us to significant legal and financial penalties.

Our research and development activities involve the controlled use of test animals as well as hazardous chemicals and potentially hazardous biological materials such as human tissue. Their use subjects us to

environmental and safety laws and regulations such as those governing laboratory procedures, exposure to blood-borne pathogens, use of laboratory animals, and the handling of biohazardous materials. Compliance with current or future laws and regulations may be expensive and the cost of compliance could adversely affect us.

Although we believe that our safety procedures for using, handling, storing, and disposing of hazardous and potentially hazardous materials comply with the standards prescribed by California and federal regulations, the risk of accidental contamination or injury from these materials cannot be eliminated. In the event of such an accident or of any violation of these or future laws and regulations, state or federal authorities could curtail our use of these materials; we could be liable for any civil damages that result, the cost of which could be substantial; and we could be subjected to substantial fines or penalties. In addition, any failure by us to control the use, disposal, removal, or storage, or to adequately restrict the discharge, or to assist in the cleanup, of hazardous chemicals or hazardous, infectious or toxic substances could subject us to significant liability. Any such liability could exceed our resources and could have a material adverse effect on our business, financial condition and results of operations. Moreover, an accident could damage our research and manufacturing facilities and operations and result in serious adverse effects on our business.

The development, manufacturing and commercialization of cell-based therapeutic products expose us to product liability claims, which could lead to substantial liability.

By developing and, ultimately, commercializing medical products, we are exposed to the risk of product liability claims. Product liability claims against us could result in substantial litigation costs and damage awards against us. We have obtained liability insurance that covers our clinical trials, and we will need to increase our insurance coverage if and when we begin commercializing products. We may not be able to obtain insurance on acceptable terms, if at all, and the policy limits on our insurance policies may be insufficient to cover our liability.

The manufacture of cell-based therapeutic products is novel, highly regulated, critical to our business, and dependent upon specialized key materials.

The proliferation and manufacture of cell-based therapeutic products are complicated and difficult processes, dependent upon substantial know-how and subject to the need for continual process improvements to be competitive. Our manufacturing experience is limited and the technologies are comparatively new. In addition, our ability to scale-up manufacturing to satisfy the various requirements of our planned clinical trials, such as GTP, GMP and release testing requirements, is uncertain. Manufacturing disruptions may occur and despite efforts to regulate and control all aspects of manufacturing, the potential for human or system failure remains. Manufacturing irregularities or lapses in quality control could have a serious adverse effect on our reputation and business, which could cause a significant loss of stockholder value. Many of the materials that we use to prepare our cell-based products are highly specialized, complex and available from only a limited number of suppliers or derived from a biological origin. At present, some of our material requirements are single sourced, and the loss of one or more of these sources may adversely affect our business if we are unable to obtain alternatives or alternative sources at all or upon terms that are acceptable to us.

Because health care insurers and other organizations may not pay for our products or may impose limits on reimbursements, our ability to become profitable could be adversely affected.

In both domestic and foreign markets, sales of potential products are likely to depend in part upon the availability and amounts of reimbursement from third-party health care payor organizations, including government agencies, private health care insurers and other health care payors, such as health maintenance organizations and self-insured employee plans. There is considerable pressure to reduce the cost of therapeutic products. Government and other third party payors are increasingly attempting to contain health care costs by limiting both coverage and the level of reimbursement for new therapeutic products and by refusing, in some cases, to provide any coverage for uses of approved products for disease indications for which the FDA or other relevant authority has not granted marketing approval. Moreover, in some cases, government and other third party payors have refused to provide reimbursement for uses of approved products for disease indications for which the FDA or other relevant authority has granted marketing approval. Significant uncertainty exists as to the reimbursement status of newly approved health care products or novel therapies such as ours. Even if we obtain regulatory approval to market our products, we can give no assurance that reimbursement will be provided by such payors at all or without substantial delay or,

if such reimbursement is provided, that the approved reimbursement amounts will be sufficient to enable us to sell products we develop on a profitable basis. Changes in reimbursement policies could also adversely affect the willingness of pharmaceutical companies to collaborate with us on the development of our cellular technologies. In certain foreign markets, pricing or profitability of prescription pharmaceuticals is subject to government control. We also expect that there will continue to be a number of federal and state proposals to implement government control over health care costs. Efforts to change regulatory and reimbursement standards are likely to continue in future legislative sessions. We do not know what legislative proposals federal or state governments will adopt or what actions federal, state or private payors for health care goods and services may take in response to such proposals or legislation. We cannot predict the effect of government control and health care reimbursement practices on our business.

Ethical and other concerns surrounding the use of stem or progenitor-based cell therapy may negatively affect regulatory approval or public perception of our product candidates, which could reduce demand for our products or depress our stock price.

The use of stem cells for research and therapy has been the subject of debate regarding related ethical, legal and social issues. Although these concerns have mainly been directed to the use of embryonic stem cells, which we presently do not use, the distinction between embryonic and non-embryonic stem cells is frequently overlooked; moreover, our use of human stem or progenitor cells from fetal sources might raise these or similar concerns. Also, upon completion of the Acquisition of the assets of Stem Cell Sciences, we intend to continue the development of embryonic stem cells and iPS cells as potential research tools, and we may in the future explore their applicability as cell-based therapeutic products. Negative public attitudes toward stem cell therapy could result in greater governmental regulation of stem cell therapies, which could harm our business. For example, concerns regarding such possible regulation could impact our ability to attract collaborators and investors. Also, existing regulatory constraints on the use of embryonic stem cells may in the future be extended to use of fetal stem cells, and these constraints might prohibit or restrict us from conducting research or from commercializing products. Existing and potential U.S. government regulation of embryonic tissue may lead researchers to leave the field of stem cell research or the country altogether, in order to assure that their careers will not be impeded by restrictions on their work. Similarly, these factors may induce graduate students to choose other fields less vulnerable to changes in regulatory oversight, thus exacerbating the risk that we may not be able to attract and retain the scientific personnel we need in face of the competition among pharmaceutical, biotechnology and health care companies, universities and research institutions for what may become a shrinking class of qualified individuals.

Our corporate documents and Delaware law contain provisions that could make it difficult for us to be acquired in a transaction that might be beneficial to our stockholders.

Our board of directors has the authority to issue shares of preferred stock and to fix the rights, preferences, privileges, and restrictions of these shares without stockholder approval. These provisions in our corporate documents, along with certain provisions under Delaware law, may make it more difficult for a third party to acquire us or discourage a third party from attempting to acquire us, even if the acquisition might be beneficial to our stockholders.

Risks Related to the Securities Market

Our stock price has been, and will likely continue to be, highly volatile, which may negatively affect our ability to obtain additional financing in the future.

The market price per share of our common stock has been and is likely to continue to be highly volatile due to the risks and uncertainties described in this section of this Annual Report on Form 10-K, as well as other factors, including:

- our ability to develop and test our technologies;
- our ability to patent or obtain licenses to necessary technologies;
- conditions and publicity regarding the industry in which we operate, as well as the specific areas our product candidates seek to address;

- competition in our industry;
- economic and other external factors or other disasters or crises;
- price and volume fluctuations in the stock market at large that are unrelated to our operating performance; and
- comments by securities analysts, or our failure to meet market expectations.

Over the two-year period ended December 31, 2008, the trading price of our common stock as reported on the Nasdaq Global Market ranged from a high of $3.63 to a low of $0.66 per share. As a result of this volatility, an investment in our stock is subject to substantial risk. Furthermore, the volatility of our stock price could negatively impact our ability to raise capital or acquire businesses or technologies.

We are contractually obligated to issue shares in the future, diluting the interest of current stockholders.

As of December 31, 2008, there were outstanding warrants to purchase 11,599,828 shares of our common stock, at a weighted average exercise price of $2.05 per share, outstanding options to purchase 8,340,530 shares of our common stock, at a weighted average exercise price of $2.32 per share, and outstanding restricted stock units for 1,650,000 shares of our common stock. In March 2009, we entered into an asset purchase agreement with Stem Cell Sciences Plc ("SCS") to acquire substantially all of the operating assets and liabilities of SCS (the "Acquisition"). The Acquisition is subject to customary closing conditions, including the approval of the stockholders of SCS, and is expected to close shortly after the SCS extraordinary general meeting scheduled for March 27, 2009. As partial consideration for the operating assets and liabilities to be acquired, we will issue to SCS 2,650,000 shares of our common stock. Moreover, we expect to issue additional options to purchase shares of our common stock to compensate employees, consultants and directors, and may issue additional shares to raise capital, to acquire other companies or technologies, to pay for services, or for other corporate purposes. Any such issuances will have the effect of diluting the interest of current stockholders.

Item 1B. ***UNRESOLVED STAFF COMMENTS***

None

Item 2. ***PROPERTIES***

We entered into a 5-year lease, as of February 1, 2001, for a 40,000 square foot facility, located in the Stanford Research Park in Palo Alto, California. This facility includes space for animals as well as laboratories, offices and a suite designed to be used to manufacture materials for clinical trials. Effective July 1, 2006, under an agreement that extends the lease through March 31, 2010, we leased the remainder of the building, adding approximately 27,500 square feet to our leased premises. We have a space-sharing agreement with Stanford University for part of the animal facility not needed for our own use.

We continue to lease the following facilities in Lincoln, Rhode Island obtained in connection with our former encapsulated cell technology: our former research laboratory and corporate headquarters building which contains 62,500 square feet of wet labs, specialty research areas and administrative offices held on a lease agreement that goes through June 2013, as well as a 21,000 square-foot pilot manufacturing facility and a 3,000 square-foot cell processing facility financed by bonds issued by the Rhode Island Industrial Facilities Corporation. We have subleased small portions of the 62,500 square foot facility, amounting to approximately 21 percent of the total space. We are actively seeking to sublease, assign or sell our remaining interests in these properties.

Item 3. ***LEGAL PROCEEDINGS***

In July 2006, we filed suit against Neuralstem, Inc., in the Federal District Court for the District of Maryland, alleging that Neuralstem's activities violate claims in four of the patents we exclusively licensed from NeuroSpheres. Neuralstem has filed a motion for dismissal or summary judgment in the alternative, citing Title 35, Section 271(e)(1) of the United States Code, which says that it is not an act of patent infringement to make, use or sell a patented invention "solely for uses reasonably related to the development and submission of information" to the FDA. Neuralstem argues that because it does not have any therapeutic products on the market yet, the activities complained of fall within the protection of Section 271(e)(1) — that is, basically, that the suit is premature. This

issue will be decided after discovery is complete. Subsequent to filing its motion to dismiss, in December 2006, Neuralstem petitioned the U.S. Patent and Trademark Office (PTO) to reexamine two of the patents in our infringement action against Neuralstem, namely U.S. Patent No. 6,294,346 (claiming the use of human neural stem cells for drug screening) and U.S. Patent No. 7,101,709 (claiming the use of human neural stem cells for screening biological agents). In April 2007, Neuralstem petitioned the PTO to reexamine the remaining two patents in the suit, namely U.S. Patent No. 5,851,832 (claiming methods for proliferating human neural stem cells) and U.S. Patent No. 6,497,872 (claiming methods for transplanting human neural stem cells). These requests were granted by the PTO and, in June 2007, the parties voluntarily agreed to stay the pending litigation while the PTO considers these reexamination requests. In October 2007, Neuralstem petitioned the PTO to reexamine a fifth patent, namely U.S. Patent No. 6,103,530, which claims a culture medium for proliferating mammalian neural stem cells. In April 2008, the PTO upheld the ’832 and ’872 patents, as amended, and issued Notices of Intent to Issue an *Ex Parte* Reexamination Certificate for both. In August 2008, the PTO upheld the ’530 patent, as amended, and issued a Notice of Intent to Issue an *Ex Parte* Reexamination Certificate. The remaining two patents are still under review by the PTO.

In May 2008, we filed a second patent infringement suit against Neuralstem and its two founders, Karl Johe and Richard Garr. In this suit, which we filed in the Federal District Court for the Northern District of California, we allege that Neuralstem’s activities infringe claims in two patents we exclusively license from NeuroSpheres, specifically U.S. Patent No. 7,361,505 (claiming composition of matter of human neural stem cells derived from any source material) and U.S. Patent No. 7,115,418 (claiming methods for proliferating human neural stem cells). In addition, we allege various state law causes of action against Neuralstem arising out of its repeated derogatory statements to the public about our patent portfolio. Also in May 2008, Neuralstem filed suit against us and NeuroSpheres in the Federal District Court for the District of Maryland seeking a declaratory judgment that the ‘505 and ‘418 patents are either invalid or are not infringed by Neuralstem and that Neuralstem has not violated California state law. In August 2008, the California court transferred our lawsuit against Neuralstem to Maryland for resolution on the merits. We anticipate that the Maryland District Court will consolidate these actions in some manner prior to trial.

Item 4. ***SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS***

None.

PART II

Item 5. ***MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES***

(a) Market price and dividend information

Our stock is traded on the Nasdaq Global Market under the symbol STEM. The quarterly ranges of high and low bid prices per share for the last two fiscal years as reported by Nasdaq are shown below:

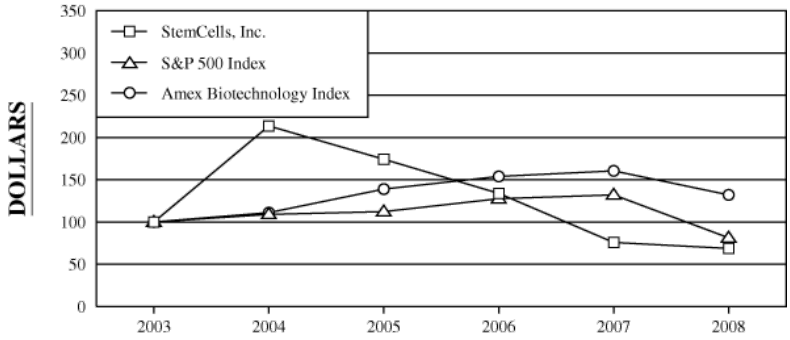
	High	Low
2008		
First Quarter	$ 1.90	$ 1.00
Second Quarter	$ 1.75	$ 1.11
Third Quarter	$ 1.43	$ 1.00
Fourth Quarter	$ 2.48	$ 0.66
2007		
First Quarter	$ 3.63	$ 2.36
Second Quarter	$ 3.09	$ 2.27
Third Quarter	$ 2.45	$ 1.90
Fourth Quarter	$ 2.53	$ 1.40

No cash dividends have been declared on our common stock since our inception.

PERFORMANCE GRAPH

We show below the cumulative total return to our stockholders during the period from December 31, 2003 through December 31, 2008[2] in comparison to the cumulative return on the Standard & Poor's 500 Index and the Amex Biotechnology Index during that same period.

The stock price performance shown on the graph below is not necessarily indicative of future stock price performance.



	December 31, 2003	December 31, 2004	December 31, 2005	December 31, 2006	December 31, 2007	December 31, 2008
StemCells, Inc.	$100.00	$213.64	$174.24	$133.84	$ 75.76	$ 68.69
S&P 500 Index	$100.00	$108.99	$112.26	$127.55	$132.06	$ 81.23
Amex Biotechnology Index	$100.00	$111.05	$138.93	$ 153.9	$160.48	$132.05

The information under "Performance Graph" is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference in any filing of StemCells, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this 10-K and irrespective of any general incorporation language in those filings.

(b) Approximate Number of Holders of Common Stock

As of February 27, 2009, there were approximately 590 holders of record of our common stock and the closing price per share of our common stock on the Nasdaq Global Market was $1.56.

The number of record holders is based upon the actual number of holders registered on the books of our transfer agent at such date and does not include holders of shares in "street names" or persons, partnerships, associations, corporations or other entities identified in security position listings maintained by depository trust companies.

(c) Recent Sales of Unregistered Securities (last three years ending December 31, 2008)

We issued the following unregistered securities in 2008:

- In September 2008, we issued 6,924 shares of common stock to the California Institute of Technology (Cal Tech) for payment of annual fees of $5,000 for each of two patent families to which we hold a license from

[2] Cumulative total returns assumes a hypothetical investment of $100 on December 31, 2003.

Cal Tech, payable in cash or stock at our choice. We elected to pay these fees in stock. The shares were issued in a transaction not involving any public offering pursuant to Section 4(2) of the Securities Act of 1933, as amended.

We issued the following unregistered securities in 2007:

- In June 2007, we issued 3,865 shares of common stock to the California Institute of Technology (Cal Tech) for payment of annual fees of $5,000 for each of two patent families to which we hold a license from Cal Tech, payable in cash or stock at our choice. We elected to pay these fees in stock. The shares were issued in a transaction not involving any public offering pursuant to Section 4(2) of the Securities Act of 1933, as amended.

We issued the following unregistered securities in 2006:

- In August 2006, we issued 3,848 shares of common stock to the California Institute of Technology (Cal Tech) as payment of annual fees of $5,000 for each of two patent families to which we hold a license from Cal Tech, payable in cash or stock at our choice. We elected to pay these fees in stock. The shares were issued in a transaction not involving any public offering pursuant to Section 4(2) of the Securities Act of 1933, as amended.

Equity Compensation Plan Information

The following table provides certain information with respect to all of our equity compensation plans in effect as of December 31, 2008.

	Equity Compensation Plan Information		
Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Stock Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Stock Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column(a)) (c)
Equity compensation plans approved by security holders(1)	9,990,530	$ 1.93	4,571,429

(1) Consists of stock options issued to employees and directors, restricted stock units issued to employees and stock options issued as compensation to consultants for consultation services. These stock options and restricted stock units were issued under our 1992 Equity Incentive Plan, Directors' Stock Option Plan, StemCells, Inc. Stock Option Plan, or our 2001, 2004 and 2006 Equity Incentive Plans.

Item 6. ***SELECTED FINANCIAL DATA***

The following selected financial and operating data are derived from our audited consolidated financial statements. The selected financial and operating data should be read in conjunction with "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation" and the consolidated financial statements and notes thereto contained elsewhere in this Form 10-K.

	Year Ended December 31,				
	2008	2007	2006	2005	2004
	(In thousands, except per share amounts)				
Consolidated Statements of Operations					
Revenue from licensing agreements and grants	$ 232	$ 57	$ 93	$ 206	$ 141
Research and development expenses(1)	17,808	19,937	13,600	8,226	7,844
General and administrative expenses(1)	8,296	7,927	7,154	5,540	4,870
Wind-down expenses(2)	866	783	709	2,827	2,827
Write down for other than temporary impairment of marketable securities(3)	2,083	—	—	—	—
Loss on change in fair value of warrant liability(4)	937	—	—	—	—
License & settlement agreement income, net(5)	—	551	103	3,736	—
Gain on sale of marketable securities	—	716	—	—	—
Net loss	(29,087)	(25,023)	(18,948)	(11,738)	(15,330)
Basic and diluted loss per share	$ (0.35)	$ (0.31)	$ (0.25)	$ (0.18)	$ (0.31)
Shares used in computing basic and diluted loss per share amounts	82,716	79,772	74,611	63,643	49,606

	December 31,				
	2008	2007	2006	2005	2004
			(In thousands)		
Consolidated Balance Sheets					
Cash and cash equivalents	$ 30,043	$ 9,759	$ 51,795	$ 34,541	$ 41,060
Marketable securities	4,182	29,847	7,266	3,721	—
Total assets	41,230	48,283	66,857	44,839	47,627
Accrued wind-down expenses(2)	5,513	6,143	6,750	7,306	5,528
Fair value of warrant liability(4)	8,440	—	—	—	—
Long-term debt, including capital leases	867	1,034	1,145	1,351	1,646
Stockholders' equity	21,809	35,212	54,376	32,376	36,950

(1) Effective January 1, 2006, we adopted Statement of Financial Accounting Standards 123 (revised 2004) (SFAS 123R), *Share-Based Payment*, in accordance with the provisions of SFAS 123R, we elected to adopt the standard using the modified prospective method. SFAS 123R requires us to recognize in operating expenses, the fair value of our stock-based compensation awards. See Note 7 "Stock-Based Compensation" in the Notes to the Consolidated Financial Statements of Part II, Item 8 of this Form 10-K for further information.

(2) Relates to wind-down expenses in respect of our Rhode Island facility. See Note 8 "Wind-down and exit costs" in the Notes to the Consolidated Financial Statements of Part II, Item 8 of this Form 10-K for further information.

(3) Relates to the impairment of our marketable equity securities (shares of ReNeuron) determined to be other than temporary. See Note 2 "Financial Instruments" in the Notes to Consolidated Financial Statements of Part II, Item 8 of this Form 10-K for further information.

(4) Relates to the fair value of warrants issued as part of our financing in November 2008. See Note 10 "Warrant Liability" in the Notes to Consolidated Financial Statements of Part II, Item 8 of this Form 10-K for further information.

(5) Relates to an agreement with ReNeuron. See Note 2 "Financial Instruments" in the Notes to Consolidated Financial Statements of Part II, Item 8 of this Form 10-K for further information.

Item 7. ***MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS***

This report contains forward looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act that involve substantial risks and uncertainties. Such statements include, without limitation, all statements as to expectation or belief and statements as to our future results of operations; the progress of our research, product development and clinical programs; the need for, and timing of, additional capital and capital expenditures; partnering prospects; costs of manufacture of products; the protection of, and the need for, additional intellectual property rights; effects of regulations; the need for additional facilities; and potential market opportunities. Our actual results may vary materially from those contained in such forward-looking statements because of risks to which we are subject, including uncertainty as to whether the U.S. Food and Drug Administration (FDA) or other regulatory authorities will permit us to proceed with clinical testing of proposed products despite the novel and unproven nature of our technologies; the risk that our clinical trials or studies could be substantially delayed beyond their expected dates or cause us to incur substantial unanticipated costs; uncertainties in our ability to obtain the capital resources needed to continue our current research and development operations and to conduct the research, preclinical development and clinical trials necessary for regulatory approvals; the uncertainty regarding our ability to obtain a corporate partner or partners, if needed, to support the development and commercialization of our potential cell-based therapeutics products; the uncertainty regarding the outcome of our clinical trials or studies we may conduct; the uncertainty regarding the validity and enforceability of our issued patents; the uncertainty whether any products that may be generated in our cell-based therapeutics programs will prove clinically safe and effective; the uncertainty whether we will achieve revenue from product sales or become profitable; uncertainties regarding our obligations with respect to our former encapsulated cell therapy facilities in Rhode Island; obsolescence of our technologies; competition from third parties; intellectual property rights of third parties; litigation risks; and other risks to which we are subject. All forward-looking statements attributable to us or to persons acting on our behalf are expressly qualified in their entirety by the cautionary statements and risk factors set forth in "Risk Factors" in Part I, Item 1A of this Form 10-K.

Overview

The Company

Our research and development (R&D) programs are focused on identifying and developing potential cell-based therapeutics which can either restore or support organ function. Since we relocated our corporate headquarters and research laboratories to California in 1999 our R&D efforts have primarily been directed at refining our methods for identifying, isolating, culturing, and purifying the human neural stem cell and human liver engrafting cells (hLEC) and developing these as potential cell-based therapeutics for the central nervous system (CNS) and the liver, respectively. In our CNS Program, our HuCNS-SC® product candidate (purified human neural stem cells) is in clinical development for two indications. In January 2009, we completed a six patient Phase I clinical trial to evaluate the safety and preliminary efficacy of HuCNS-SC® cells as a treatment for infantile and late infantile neuronal ceroid lipofuscinosis (NCL), two forms of a group of disorders often referred to as Batten disease. We expect to complete data analysis and to report the trial results in mid 2009. In December 2008, the FDA approved our IND to initiate a Phase I clinical trial of HuCNS-SC cells in a second indication, Pelizeaus-Merzbacher Disease (PMD), a fatal myelination disorder in the brain. We expect the PMD trial to begin enrolling patients in 2009 and that the trial will take 12-18 months to complete. In addition, our HuCNS-SC cells are in preclinical development for spinal cord injury and retinal disorders. In our Liver Program, we are in preclinical development with our human liver engrafting cells (hLEC) and we plan to seek the necessary approvals to initiate a clinical study to evaluate hLEC as a potential cellular therapy, with the initial indication likely to be liver-based metabolic disorders. See Overview "Research and Development Programs" in the Business Section of Part I, Item 1 of this Form 10-K for a brief description of our significant research and development programs. We have also conducted research on several other cell types and in other areas, which could lead to other possible product candidates, process improvements or further research activities.

We have not derived any revenue or cash flows from the sale or commercialization of any products except for license revenue for certain of our patented cells and media for use in research. As a result, we have incurred annual operating losses since inception and expect to incur substantial operating losses in the future. Therefore, we are

dependent upon external financing from equity and debt offerings and revenue from collaborative research arrangements with corporate sponsors to finance our operations. We have no such collaborative research arrangements at this time and there can be no assurance that such financing or partnering revenue will be available when needed or on terms acceptable to us.

Before we can derive revenue or cash inflows from the commercialization of any of our therapeutic product candidates, we will need to: (i) conduct substantial *in vitro* testing and characterization of our proprietary cell types, (ii) undertake preclinical and clinical testing for specific disease indications; (iii) develop, validate and scale-up manufacturing processes to produce these cell-based therapeutics, and (iv) pursue required regulatory approvals. These steps are risky, expensive and time consuming.

Overall, we expect our R&D expenses to be substantial and to increase for the foreseeable future as we continue the development and clinical investigation of our current and future product candidates. However, expenditures on R&D programs are subject to many uncertainties, including whether we develop our product candidates with a partner or independently. We cannot forecast with any degree of certainty which of our current product candidates will be subject to future collaboration, when such collaboration agreements will be secured, if at all, and to what degree such arrangements would affect our development plans and capital requirements. In addition, there are numerous factors associated with the successful commercialization of any of our cell-based therapeutics, including future trial design and regulatory requirements, many of which cannot be determined with accuracy at this time given the stage of our development and the novel nature of stem cell technologies. The regulatory pathways, both in the United States and internationally, are complex and fluid given the novel and, in general, clinically unproven nature of stem cell technologies. At this time, due to such uncertainties and inherent risks, we cannot estimate in a meaningful way the duration of, or the costs to complete, our R&D programs or whether, when or to what extent we will generate revenues or cash inflows from the commercialization and sale of any of our product candidates. While we are currently focused on advancing each of our product development programs, our future R&D expenses will depend on the determinations we make as to the scientific and clinical prospects of each product candidate, as well as our ongoing assessment of the regulatory requirements and each product candidate's commercial potential. If we are successful in completing the Acquisition of the business of SCS, we would expect our expenses and expenditures to increase.

Given the early stage of development of our product candidates, any estimates of when we may be able to commercialize one or more of these products would not be meaningful. Moreover, any estimate of the time and investment required to develop potential products based upon our proprietary HuCNS-SC and hLEC technologies will change depending on the ultimate approach or approaches we take to pursue them, the results of preclinical and clinical studies, and the content and timing of decisions made by the FDA and other regulatory authorities. There can be no assurance that we will be able to develop any product successfully, or that we will be able to recover our development costs, whether upon commercialization of a developed product or otherwise. We cannot provide assurance that any of these programs will result in products that can be marketed or marketed profitably. If certain of our development-stage programs do not result in commercially viable products, our results of operations could be materially adversely affected.

Significant Events

In January 2008, we completed enrollment and dosing of a six-patient Phase I clinical trial of our HuCNS-SC product candidate as a treatment for infantile and late infantile neuronal ceroid lipofuscinosis (NCL) at Oregon Health & Science University (OHSU) Doernbecher Children's Hospital.

In January 2008, we entered into a research collaboration with the OHSU Casey Eye Institute to evaluate our HuCNS-SC product candidate as a potential treatment for retinal degeneration, a leading cause of blindness.

In April 2008, the U.S. Patent and Trademark Office issued U.S. Patent Number 7,361,505 with broad claims covering human neural stem cells derived from any tissue source, including embryonic, fetal, juvenile, or adult tissue. The '505 patent is exclusively licensed to us.

In June 2008, U.S. Patent and Trademark Office issued U.S. Patent Number 7,381,561 claiming the use of additional monoclonal antibodies for the prospective isolation of rare cells from human neural tissue, such as our HuCNS-SC product candidate. The ’561 patent is assigned to us.

In September 2008, Stewart Craig, Ph.D. joined us as Senior Vice President, Development and Operations, with responsibility for process design and engineering, GMP manufacturing operations, regulatory affairs, quality assurance, facilities and supply chain management. Dr. Craig has over twenty-five years of experience in the biotechnology sector, the last 15 of which have been in the cell therapy field.

In October 2008, we were awarded a $305,000 grant from the National Institute of Diabetes and Digestive and Kidney Diseases to research and develop a potential cell-based therapeutic for liver disease arising from infection by the hepatitis C virus. This grant will fund work over the next year to investigate whether our human liver engrafting cells can be made resistant to infection by the hepatitis C virus.

In November 2008, we reported that our HuCNS-SC cells, when transplanted into a well-established animal model, can protect the retina from progressive degeneration and prevent the loss of visual function. Retinal degeneration leads to loss of vision in diseases such as age-related macular degeneration and retinitis pigmentosa.

In November 2008, we raised approximately $20 million in gross proceeds through the sale of approximately 13.8 million units at $1.45 per unit. Each unit consisted of one share of common stock and a warrant to purchase 0.75 shares of common stock at an exercise price of $2.30 per share. We received total proceeds, net of offering expenses and placement agency fees, of approximately $18.6 million.

In December 2008, the FDA approved our IND to initiate a clinical trial of our HuCNS-SC product candidate to treat Pelizaeus-Merzbacher Disease (PMD), a fatal brain disorder that mainly affects young children. This Phase I trial, which is designed to evaluate the safety and preliminary efficacy of HuCNS-SC cells as a treatment for PMD, is expected to begin enrolling patients in 2009.

In January 2009, we completed the six-patient Phase I clinical trial of our HuCNS-SC product candidate as a treatment for infantile and late infantile NCL.

In March 2009, we entered into an asset purchase agreement with Stem Cell Sciences Plc (“SCS”) to acquire substantially all of the operating assets and liabilities of SCS (the proposed “Acquisition”). The Acquisition is subject to the approval of the stockholders of SCS and other customary closing conditions, and is expected to close shortly after the SCS extraordinary general meeting scheduled for March 27, 2009.

Critical Accounting Policies and the Use of Estimates

The accompanying discussion and analysis of our financial condition and results of operations are based on our Consolidated Financial Statements and the related disclosures, which have been prepared in accordance with U.S. generally accepted accounting principles (GAAP). The preparation of these Consolidated Financial Statements requires management to make estimates, assumptions, and judgments that affect the reported amounts in our Consolidated Financial Statements and accompanying notes. These estimates form the basis for making judgments about the carrying values of assets and liabilities. We base our estimates and judgments on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, and we have established internal controls related to the preparation of these estimates. Actual results and the timing of the results could differ materially from these estimates.

Warrant Liability

We account for our warrants in accordance with Emerging Issues Task Force Issue No. 00-19, *Accounting for Derivative Financial Instruments Indexed to and Potentially Settled in a Company’s Own Stock* (EITF 00-19), which defines how freestanding contracts that are indexed to and potentially settled in a company’s own stock should be measured and classified. The general concept under EITF 00-19 is that contracts that could require net-cash settlement should be classified as assets or liabilities and contracts that only provide for settlement in shares should be classified as equity. In order for a contract to be classified as equity, each of the specific conditions enumerated in EITF 00-19 must be met; these conditions are intended to identify situations in which net cash

settlement could be forced upon the issuer. As part of our November 2008 financing, we issued warrants with a five year term to purchase 10,344,828 shares of our common stock at $2.30 per share. In accordance with EITF 00-19, we are required to classify the fair value of the warrants issued as a liability, with subsequent changes in fair value to be recorded as income (loss) on change in fair value of warrant liability. The fair value of the warrants is determined using the Black-Scholes-Merton (Black-Scholes) option pricing model and is affected by changes in inputs to that model including our stock price, expected stock price volatility and contractual term. We will continue to classify the fair value of the warrants as a liability until the warrants are exercised, expire or are amended in a way that would no longer require these warrants to be classified as a liability. The estimated fair value of our warrant liability at December 31, 2008, was approximately $8,440,000.

Stock-Based Compensation

On January 1, 2006, we adopted Statement of Financial Accounting Standards No. 123 (revised 2004) (SFAS 123R), *Share-Based Payment*, which revises SFAS 123, *Accounting for Stock-Based Compensation*, and supersedes Accounting Principles Board Opinion 25, *Accounting for Stock Issued to Employees*. SFAS 123R requires us to recognize expense related to the fair value of our stock-based compensation awards, including employee stock options and restricted stock units. Under the provisions of SFAS 123R, employee stock-based compensation is estimated at the date of grant based on the award's fair value using the Black-Scholes option-pricing model and is recognized as expense ratably over the requisite service period. The Black-Scholes option-pricing model requires the use of certain assumptions, the most significant of which are our estimates of the expected volatility of the market price of our stock, the expected term of the award, and the risk-free interest rate. Our estimate of the expected volatility is based on historical volatility. The expected term represents the period during which our stock-based awards are expected to be outstanding. In 2008 we estimated this amount based on historical experience of similar awards, giving consideration to the contractual terms of the awards, vesting requirements, and expectation of future employee behavior, including post-vesting terminations. Our estimate of the risk-free interest rate is based on U.S. Treasury debt securities with maturities close to the expected term of the option as of the date of grant. As required under SFAS 123R, we review our valuation assumptions at each grant date and, as a result, our assumptions in future periods may change. For the year ended December 31, 2008, employee stock-based compensation expense was approximately $3,755,000. As of December 31, 2008, total compensation cost related to unvested stock options and restricted stock units not yet recognized was approximately $5,207,000, which is expected to be recognized as expense over a weighted-average period of 2.1 years.

Wind-down expenses

In connection with our wind-down of our research and manufacturing operations in Lincoln, Rhode Island, and the relocation of our corporate headquarters and remaining research laboratories to California in October 1999, we provided a reserve for our estimate of the exit cost obligation in accordance with EITF 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring).* The reserve reflects estimates of the ongoing costs of our former research and administrative facility in Lincoln, which we hold on a lease that terminates on June 30, 2013. We are seeking to sublease, assign, sell, or otherwise divest ourselves of our interest in the facility at the earliest possible time, but we cannot determine with certainty a fixed date by which such events will occur, if at all.

In determining the facility exit cost reserve amount, we are required to consider our lease payments through the end of the lease term and estimate other relevant factors such as facility operating expenses, real estate market conditions in Rhode Island for similar facilities, occupancy rates, and sublease rental rates projected over the course of the leasehold. We re-evaluate the estimate each quarter, taking into account changes, if any, in each of the underlying factors. The process is inherently subjective because it involves projections into time — from the date of the estimate through the end of the lease — and it is not possible to determine any of the factors except the lease payments with certainty over that period.

Management forms its best estimate on a quarterly basis, after considering actual sublease activity, reports from our broker/realtor about current and predicted real estate market conditions in Rhode Island, the likelihood of new subleases in the foreseeable future for the specific facility and significant changes in the actual or projected operating expenses of the property. We discount the projected net outflow over the term of the lease to arrive at the

present value, and adjust the reserve to that figure. The estimated vacancy rate for the facility is an important assumption in determining the reserve because changes in this assumption have the greatest effect on estimated sublease income. In addition, the vacancy rate estimate is the variable most subject to change, while at the same time it involves the greatest judgment and uncertainty due to the absence of highly predictive information concerning the future of the local economy and future demand for specialized laboratory and office space in that area. The average vacancy rate of the facility over the last six years (2003 through 2008) was approximately 74%, varying from 62% to 89%. As of December 31, 2008, based on current information available to management, the vacancy rate is projected to be approximately 78% for 2009, and approximately 70% from 2010 through the end of the lease. These estimates are based on actual occupancy as of December 31, 2008, predicted lead time for acquiring new subtenants, historical vacancy rates for the area and assessments by our broker/realtor of future real estate market conditions. If the assumed vacancy rate for 2010 to the end of the lease had been five percentage points higher or lower at December 31, 2008, then the reserve would have increased or decreased by approximately $178,000. Similarly, a 5% increase or decrease in the operating expenses for the facility from 2008 on would have increased or decreased the reserve by approximately $118,000, and a 5% increase or decrease in the assumed average rental charge per square foot would have increased or decreased the reserve by approximately $54,000. Management does not wait for specific events to change its estimate, but instead uses its best efforts to anticipate them on a quarterly basis.

For the year ended December 31, 2008, we recorded actual expenses against this reserve net of subtenant income of approximately $1,293,000. Based on management's evaluation of the factors mentioned above, and particularly the projected vacancy rates described above, we adjusted the reserve to $5,513,000 at December 31, 2008 by recording an additional $866,000 as wind-down expenses for the year ended December 31, 2008.

Income Taxes

We account for income taxes in accordance with SFAS No. *109, Accounting for Income Taxes* (SFAS 109) and FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109*, as amended by FASB Staff Position No. 48-1 (FIN 48). Under SFAS 109 and FIN 48, we must recognize deferred tax assets and liabilities for expected future tax consequences of temporary differences between the carrying amounts and tax bases of assets and liabilities. Income tax receivables and liabilities, and deferred tax assets and liabilities, are recognized based on the amounts that more likely than not would be sustained upon ultimate settlement with taxing authorities.

Developing our provision for income taxes and analyzing our tax positions requires significant judgment and knowledge of federal and state income tax laws, regulations and strategies, including the determination of deferred tax assets and liabilities and, any valuation allowances that may be required for deferred tax assets.

We assess the likelihood of realizing our deferred tax assets to determine whether an income tax valuation allowance is required. Based on such evidence that can be objectively verified, we determine whether it is more likely than not that all or a portion of the deferred tax assets will be realized. The main factors that we consider include:

- cumulative losses in recent years;
- income/losses expected in future years; and
- the applicable statute of limitations.

Tax benefits associated with uncertain tax positions are recognized in the period in which one of the following conditions is satisfied: (1) the more likely than not recognition threshold is satisfied; (2) the position is ultimately settled through negotiation or litigation; or (3) the statute of limitations for the taxing authority to examine and challenge the position has expired. Tax benefits associated with an uncertain tax position are reversed in the period in which the more likely than not recognition threshold is no longer satisfied.

We concluded that the realization of deferred tax assets is dependent upon future earnings, if any, the timing and amount of which are uncertain. Accordingly, the net deferred tax assets have been fully offset by a valuation allowance.

Contingencies

We are currently involved in certain legal proceedings. See Note 9, "Commitments and Contingencies," in the Notes to Consolidated Financial Statements of Part II, Item 8 of this Form 10-K for further information on these matters.

Results of Operations

Our results of operations have varied significantly from year to year and quarter to quarter and may vary significantly in the future due to the occurrence of material recurring and nonrecurring events, including without limitation the receipt and payment of recurring and nonrecurring licensing payments, the initiation or termination of research collaborations, the on-going expenses to lease and maintain our Rhode Island facilities, other than temporary impairment of our financial assets, changes in estimated fair value of our warrant liability, and the increasing costs associated with operating our California facility and expanding our operations.

Revenue

Revenue totaled approximately $232,000 in 2008, $57,000 in 2007, and $93,000 in 2006.

	2008	2007	2006	Change in 2008 Versus 2007 $	Change in 2008 Versus 2007 %	Change in 2007 Versus 2006 $	Change in 2007 Versus 2006 %
Revenue							
Licensing agreements and grants	$ 231,730	$ 56,722	$ 92,850	$ 175,008	309%	$ (36,128)	(39)%

The increase in licensing and grant revenue in 2008 as compared to 2007 was primarily attributable to the receipt of a $150,000 milestone payment under a license agreement. In addition, in October 2008, we were awarded a $305,000 grant from the National Institute of Diabetes and Digestive and Kidney Diseases to research and develop a potential cell-based therapeutic for liver disease arising from infection by the hepatitis C virus. The award is a Phase I grant under the Small Business Innovation Research (SBIR) Program of the National Institutes of Health. We recognized approximately $26,000 as grant revenue in 2008. The decrease in licensing and grant revenue in 2007 as compared to 2006 was primarily attributable to the completed draw down in 2006 of a $464,000 Small Business Technology Transfer Grant for studies in Alzheimer's disease that was awarded in September 2004. The grant supported joint work with Dr. George A. Carlson of the McLaughlin Research Institute (MRI) in Great Falls, Montana. We received and recognized approximately $38,000 in 2006, as grant revenue for this study.

Operating Expenses

Operating expense totaled approximately $26,970,000 in 2008, $28,648,000 in 2007, and $21,464,000 in 2006.

	2008	2007	2006	Change in 2008 Versus 2007 $	Change in 2008 Versus 2007 %	Change in 2007 Versus 2006 $	Change in 2007 Versus 2006 %
Operating Expenses							
Research & development	$ 17,808,009	$ 19,937,426	$ 13,600,433	$ (2,129,417)	(11)%	$ 6,336,993	47%
General & administrative	8,295,554	7,927,443	7,154,042	368,111	5%	773,401	11%
Wind-down expenses	866,199	783,022	709,209	83,177	11%	73,813	10%
Total operating expenses	$ 26,969,762	$ 28,647,891	$ 21,463,684	$ (1,678,129)	(6)%	$ 7,184,207	33%

Research and Development Expenses

Our R&D expenses consist primarily of salaries and related personnel expenses, costs associated with clinical trials and regulatory submissions; costs associated with preclinical activities such as toxicology studies; costs associated with cell processing and process development; certain patent-related costs such as licensing; facilities-

related costs such as depreciation; lab equipment and supplies. Clinical trial expenses include payments to vendors such as clinical research organizations, contract manufacturers, clinical trial sites, laboratories for testing clinical samples and consultants. Cumulative R&D costs incurred since we refocused our activities on developing cell-based therapeutics (fiscal years 2000 through 2008) were approximately $92 million. Over this period, the majority of these cumulative costs were related to: (i) characterization of our proprietary HuCNS-SC cell, (ii) expenditures for toxicology and other preclinical studies, preparation and submission of applications to regulatory agencies to conduct clinical trials and obtaining regulatory clearance to initiate such trials, all with respect to our HuCNS-SC cells, (iii) preclinical studies and development of our human liver engrafting cells; and (iv) costs associated with cell processing and process development.

We use and manage our R&D resources, including our employees and facilities, across various projects rather than on a project-by-project basis for the following reasons. The allocations of time and resources change as the needs and priorities of individual projects and programs change, and many of our researchers are assigned to more than one project at any given time. Furthermore, we are exploring multiple possible uses for each of our proprietary cell types, so much of our R&D effort is complementary to and supportive of each of these projects. Lastly, much of our R&D effort is focused on manufacturing processes, which can result in process improvements useful across cell types. We also use external service providers to assist in the conduct of our clinical trials, to manufacture certain of our product candidates and to provide various other R&D related products and services. Many of these costs and expenses are complementary to and supportive of each of our programs. Because we do not have a development collaborator for any of our product programs, we are currently responsible for all costs incurred with respect to our product candidates.

R&D expense totaled approximately $17,808,000 in 2008, as compared to $19,937,000 in 2007 and $13,600,000 in 2006. At December 31, 2008, we had 43 full-time employees working in research and development and laboratory support services as compared to 49 at December 31, 2007 and 35 at December 31, 2006.

2008 versus 2007. The decrease in R&D expenses of approximately $2,129,000, or 11%, in 2008 as compared to 2007 was primarily attributable to a decrease in external services of approximately $2,833,000; these external services were mainly related to manufacturing and testing of our cells and to clinical trial expenses. The decrease in clinical trial expenses was due mainly to the completion of enrollment and dosing of our six-patient Phase I clinical trial in January 2008. The decrease in R&D expenses was also attributable to a decrease in business travel expenses of approximately $197,000. These decreased R&D expenses were partially offset by an increase in other operating expenses primarily attributable to (i) an increase in share based compensation expense of $263,000, and (ii) an increase in other operating expenses of approximately $638,000, primarily attributable to supplies.

2007 versus 2006. The increase in R&D expenses of approximately $6,337,000, or 47%, in 2007 as compared to 2006 was primarily attributable to the expansion of our operations in cell processing and clinical development. A portion of our cell processing and clinical operations are performed by external service providers, so external services and clinical trial costs were approximately $3,954,000 of the increase in R&D expenses. The increase in R&D expenses was also due to an increase in personnel costs of approximately $1,442,000, of which approximately $206,000 was attributable to stock-based compensation expense. The remainder of the increase in R&D expenses in 2007 was due to increases in supplies, rent, and other operating expenses.

General and Administrative Expenses

General and administrative (G&A) expenses totaled approximately $8,296,000 in 2008, compared with $7,927,000 in 2007 and $7,154,000 in 2006.

2008 versus 2007. The increase in G&A expenses of approximately $369,000, or 5%, in 2008 as compared to 2007 was primarily attributable to an increase in share-based compensation expense of $431,000. In addition, operating expenses for our vacant pilot manufacturing facility in Rhode Island increased by approximately $524,000 due to the loss of tenant income to offset operating expenses. These increased expenses were partially offset by a decrease in external fees of $399,000, including legal and recruiting fees, and a decrease in other operating expenses of approximately $187,000.

2007 versus 2006. The increase in G&A expenses of approximately $773,000, or 11%, in 2007 as compared to 2006 was primarily attributable to an increase in external services of approximately $763,000, driven by an increase in legal fees related to patent prosecutions and litigation, and an increase in personnel costs of approximately $425,000, of which approximately $211,000 was attributable to an increase in stock-based compensation expense. These increases were partially offset by a decrease in other G&A expenses.

Wind-down Expenses

In 1999, in connection with exiting our former research facility in Rhode Island, we created a reserve for the estimated lease payments and operating expenses related to it. The reserve has been re-evaluated and adjusted based on assumptions relevant to real estate market conditions and the estimated time until we could either fully sublease, assign or sell our remaining interests in the property. The reserve was approximately $5,513,000 at December 31, 2008 and $6,143,000 at December 31, 2007. Payments net of subtenant income were recorded against this reserve of $1,293,000 in 2008, $1,420,000 in 2007, and $1,295,000 in 2006. We re-evaluated the estimate and adjusted the reserve by recording in aggregate, additional wind-down expenses of $866,000 in 2008, $783,000 in 2007, and $709,000 in 2006. Expenses for this facility will fluctuate based on changes in tenant occupancy rates and other operating expenses related to the lease. Even though it is our intent to sublease, assign, sell, or otherwise divest ourselves of our interests in the facility at the earliest possible time, we cannot determine with certainty a fixed date by which such events will occur. In light of this uncertainty, based on estimates, we will periodically re-evaluate and adjust the reserve, as necessary. See Note 8 “Wind-down and exit costs,” in the Notes to Consolidated Financial Statements of Part II, Item 8 of this Form 10-K for further information.

Other Income (Expense)

Other expense totaled approximately $2,349,000 in 2008, compared with other income of approximately $3,568,000 in 2007 and $2,422,000 in 2006.

	2008	2007	2006	Change in 2008 Versus 2007 $	Change in 2008 Versus 2007 %	Change in 2007 Versus 2006 $	Change in 2007 Versus 2006 %
Other income (expense):							
License and settlement agreement, net	$ —	$ 550,467	$ 103,359	$ (550,467)	(100)%	$ 447,108	433%
Realized gain on sale of marketable securities	—	715,584	—	(715,584)	(100)%	715,584	*%
Other than temporary impairment of marketable securities	(2,082,894)	—	—	(2,082,894)	*%	—	—
Change in fair value of warrant liability	(937,241)	—	—	(937,241)	*%	—	—
Interest income	803,095	2,459,820	2,479,740	(1,656,725)	(67)%	(19,920)	(1)%
Interest expense	(109,762)	(123,606)	(143,001)	13,844	(11)%	19,395	(14)%
Other expense, net	(21,943)	(33,899)	(17,644)	11,956	(35)%	(16,255)	92%
Total other income (expense), net	$ (2,348,745)	$ 3,568,366	$ 2,422,454	$ (5,917,111)	(166)%	$ 1,145,912	47%

* Calculation cannot be performed or is not meaningful.

License and Settlement Agreement

In July 2005, we entered into an agreement with ReNeuron Limited, a wholly owned subsidiary of ReNeuron Group plc, a listed UK corporation (collectively referred to as “ReNeuron”). As part of the agreement, we granted ReNeuron a license that allows ReNeuron to exploit their “c-mycER” conditionally immortalized adult human neural stem cell technology for therapy and other purposes. We received shares of ReNeuron common stock, as well as a cross-license to the exclusive use of ReNeuron’s technology for certain diseases and conditions, including lysosomal storage diseases, spinal cord injury, cerebral palsy, and multiple sclerosis. The agreement also provides

for full settlement of any potential claims that either we or ReNeuron might have had against the other in connection with any putative infringement of certain of each party's patent rights prior to the effective date of the agreement. In July and August 2005 we received approximately 8,836,000 ordinary shares of ReNeuron common stock (net of approximately 104,000 shares that were transferred to NeuroSpheres), and subsequently, in 2006 and 2007, as a result of certain anti-dilution provisions in the agreement, we received approximately 1,261,000 more shares, net of approximately 18,000 shares that were transferred to NeuroSpheres. In February 2007, we sold 5,275,000 shares for net proceeds of approximately $3,077,000. See Note 15 "Subsequent Events" in the Notes to Consolidated Financial Statements of Part II, Item 8 of this Form 10-K for further information.

Other income from the license and settlement agreement totaled approximately $0 in 2008, $550,000 in 2007, and $103,000 in 2006, which was the fair value of the ReNeuron shares we received under such agreement, net of legal fees and the value of the shares that were transferred to NeuroSpheres Ltd., an Alberta corporation from which we have licensed some of the patent rights that are the subject of the agreement with ReNeuron. See Note 2 "Financial Instruments — ReNeuron License Agreement" in the Notes to Consolidated Financial Statements of Part II, Item 8 of this Form 10-K for further information regarding this transaction.

Gain on Sale of Marketable Equity Securities

The gain on sale of marketable equity securities of approximately $716,000 in 2007 was attributable to sales of ReNeuron shares. See Note 2 "Financial Instruments," in the Notes to Consolidated Financial Statements of Part II, Item 8 of this Form 10-K for further information on this transaction.

Other than temporary impairment of marketable securities

As of December 31, 2008, we determined that our investment in ReNeuron shares (marketable equity securities) was impaired and that such impairment was other than temporary. We considered various criteria, including the duration of the impairment and our intent to liquidate all or part of this investment within a reasonably short period of time. For the year ended December 31, 2008, we recorded a loss of $2,082,894, which is the difference between the investment's carrying value and its quoted market price at that date. No other than temporary impairment was recognized during the years ended December 31, 2007 and 2006. See Note 2 "Financial Instruments," in the Notes to Consolidated Financial Statements of Part II, Item 8 of this Form 10-K for further information on this transaction.

Interest Income

Interest income totaled approximately $803,000 in 2008, $2,460,000 in 2007, and $2,480,000 in 2006. The decrease in interest income in 2008 as compared to 2007 was primarily attributable to lower average yields and a lower average bank balance in 2008. Interest income in 2007 was relatively flat compared to 2006, as a result of lower average bank balances offset by higher average yields.

Interest Expense

Interest expense was approximately $110,000 in 2008, $124,000 in 2007, and $143,000 in 2006. The decreases in 2008 as compared to 2007 and in 2007 as compared to 2006 were attributable to lower outstanding debt and capital lease balances. See Note 9 "Commitment and Contingencies," in the Notes to Consolidated Financial Statements of Part II, Item 8 of this Form 10-K for further information.

Other Expense, net

Other expense, net for 2008, 2007, and 2006 of approximately $22,000, $34,000, and $18,000 respectively, primarily relate to the payment of state franchise taxes.

Liquidity and Capital Resources

Since our inception, we have financed our operations through the sale of common and preferred stock, the issuance of long-term debt and capitalized lease obligations, revenue from collaborative agreements, research grants, license fees, and interest income.

	2008	2007	2006	Change in 2008 Versus 2007 $	Change in 2008 Versus 2007 %	Change in 2007 Versus 2006 $	Change in 2007 Versus 2006 %
At December 31:							
Cash and highly liquid investments(1)	$ 34,037,775	$ 37,645,085	$ 51,795,529	$ (3,607,310)	(10)%	$(14,150,444)	(27)%
Year ended December 31:							
Net cash used in operating activities	$(22,740,421)	$(20,856,746)	$(16,104,120)	$ 1,883,475	9%	$ 4,752,626	29%
Net cash provided by (used in) investing activities	$ 24,223,629	$(27,155,656)	$ (1,297,124)	$51,379,285	189%	$ 25,858,532	1994%
Net cash provided by financing activities	$ 18,800,609	$ 5,976,042	$ 34,655,865	$12,824,567	215%	$(28,679,823)	(83)%

(1) Cash and highly liquid investments include unrestricted cash, cash equivalents, and short-term and long-term marketable debt securities. Marketable equity securities, which are comprised of 4,821,924 ordinary shares of ReNeuron, are excluded from the amounts above. See Note 2, “Financial Instruments,” in the Notes to the Consolidated Financial Statements of Part II, Item 8 of this Form 10-K for further information.

Total cash and highly liquid investments were approximately $34,038,000 at December 31, 2008, compared with approximately $37,645,000 at December 31, 2007, and $51,796,000 at December 31, 2006. The decrease in our cash and highly liquid investments of approximately $3,607,000, or 10%, in 2008 as compared to 2007 and $14,150,000, or 27%, in 2007 as compared to 2006 was primarily attributable to cash used in operating activities; partially offset by cash generated from financing activities.

Net Cash Used in Operating Activities

Cash used by operating activities consists of net loss for the year, adjusted for non-cash expenses such as depreciation and amortization and share based compensation, and adjustments for changes in various components of working capital. Cash used in operating activities was approximately $22,740,000 in 2008, $20,857,000 in 2007, and $16,104,000 in 2006. The increase in cash used in operating activities in 2008 compared to 2007 was primarily attributable to the timing of cash payments and receipts for various operating assets and liabilities such as accounts payable, accrued expenses, and accounts receivable. This increased use of working capital in 2008 was partially offset by a decrease in operating loss in 2008 as compared to 2007. The decrease in operating loss from approximately $28,591,000 in 2007 to approximately $26,738,000 in 2008 was primarily attributable to the decrease in R&D expenses in 2008 as compared to 2007. The increase in cash used in 2007 as compared to 2006, was primarily attributable to higher R&D expenses in 2007.

Net Cash Used in Investing Activities

The increase of approximately $51,379,000 for net cash provided by investing activities in 2008 as compared to 2007 was primarily attributable to the maturity of marketable debt securities held to maturity in 2008. In 2008, we received net proceeds of $23,859,000 from the maturity of marketable debt securities, while in 2007, we invested approximately $27,862,000 in net purchases of marketable debt securities. In addition, in December 2008, we made a secured loan of £200,000 (approximately $298,000) to SCS in connection with a potential acquisition transaction. The loan accrues interest at 8% per annum and is repayable on June 23, 2009 if the proposed Acquisition does not close beforehand. The increase of approximately $25,859,000 for net cash used in investing activities in 2007 as compared to 2006 was almost entirely due to the redeployment of cash held in money market funds (classified as cash equivalents) to marketable debt securities (classified as marketable securities). In February 2007, we sold 5,275,000 ordinary shares of ReNeuron for net proceeds of approximately $3,075,000. In addition, cash used in

investing activities in 2007 included a secured loan of $1,000,000 made to PCT in December 2007. See Note 2, “Financial Instruments,” in the Notes to the Consolidated Financial Statements of Part II, Item 8 of this Form 10-K for further information on our investing activities.

Net Cash Provided by Financing Activities

The increase for net cash provided by financing activities of approximately $12,825,000 in 2008 as compared to 2007 was primarily attributable to the sale in November 2008 of 13,793,104 units to institutional investors at a price of $1.45 per unit. Each unit consisted of one share of our common stock and a warrant to purchase 0.75 shares of our common stock at an exercise price of $2.30 per share. We received approximately $18,637,000, net of offering expenses and placement agency fees. The decrease of approximately $28,680,000 in 2007 as compared to 2006 was primarily attributable to the sale in April 2006 of 11,750,820 shares of our common stock to institutional investors at a price of $3.05 per share. We received total proceeds, net of offering expenses and placement agency fees, of approximately $33,422,000.

Listed below are key financing transactions entered into by us in the last three years:

- In November 2008, we sold 13,793,104 units to institutional investors at a price of $1.45 per unit, for gross proceeds of $20,000,000. The units, each of which consisted of one share of common stock and a warrant to purchase 0.75 shares of common stock at an exercise price of $2.30 per share, were offered as a registered direct offering under an effective shelf registration statement previously filed with and declared effective by the Securities and Exchange Commission. We received total proceeds net of offering expenses and placement agency fees of approximately $18,637,000.
- In April 2007, a warrant issued as part of our June 2004 financing was exercised to purchase an aggregate of 575,658 shares of our common stock at $1.90 per share. We issued 575,658 shares of our common stock and received proceeds of approximately $1,094,000.
- In December 2006, we filed a Prospectus Supplement announcing the entry of a sales agreement with Cantor Fitzgerald & Co (Cantor) under which up to 10,000,000 shares may be sold from time to time under a shelf registration statement. In 2007 and 2008, we sold a total of 2,012,600 shares of our common stock under this agreement at an average price per share of $2.68 for gross proceeds of approximately $5,133,000. Cantor is paid compensation equal to 5.0% of the gross proceeds pursuant to the terms of the agreement.
- In April 2006, we sold 11,750,820 shares of our common stock to institutional investors at a price of $3.05 per share, for gross proceeds of approximately $35,840,000. The shares were offered as a registered direct offering under an effective shelf registration statement previously filed with and declared effective by the Securities and Exchange Commission. We received total proceeds, net of offering expenses and placement agency fees, of approximately $33,422,000. No warrants were issued as part of this financing transaction.
- In March 2006, a warrant issued as part of our June 2004 financing was exercised to purchase an aggregate of 526,400 shares of our common stock at $1.89 per share. We issued 526,400 shares of our common stock and received proceeds of approximately $995,000.

In the first quarter of 2009, we sold in aggregate, 3,325,000 shares of our common stock pursuant to the sales agreement we entered into with Cantor, at an average price per share of $2.10 for gross proceeds of approximately $6,999,000. Cantor is paid compensation equal to 5.0% of the gross proceeds pursuant to the terms of the agreement.

We have incurred significant operating losses and negative cash flows since inception. We have not achieved profitability and may not be able to realize sufficient revenue to achieve or sustain profitability in the future. We do not expect to be profitable in the next several years, but rather expect to incur additional operating losses. We have limited liquidity and capital resources and must obtain significant additional capital resources in order to sustain our product development efforts, for acquisition of technologies and intellectual property rights, for preclinical and clinical testing of our anticipated products, pursuit of regulatory approvals, acquisition of capital equipment, laboratory and office facilities, establishment of production capabilities, for general and administrative expenses and other working capital requirements. We rely on cash balances and proceeds from equity and debt offerings,

proceeds from the transfer or sale of our intellectual property rights, equipment, facilities or investments, and government grants and funding from collaborative arrangements, if obtainable, to fund our operations.

We intend to pursue opportunities to obtain additional financing in the future through equity and debt financings, grants and collaborative research arrangements. On June 25, 2008 we filed with the SEC a universal shelf registration statement, declared effective July 18, 2008, which permits us to issue up to $100 million worth of registered debt and equity securities. Under this effective shelf registration, we have the flexibility to issue registered securities, from time to time, in one or more separate offerings or other transactions with the size, price and terms to be determined at the time of issuance. Registered securities issued using this shelf may be used to raise additional capital to fund our working capital and other corporate needs, for future acquisitions of assets, programs or businesses, and for other corporate purposes. As of March 10, 2009, we had approximately $71 million under our universal shelf registration statement available for issuing debt or equity securities; approximately $24 million of this $71 million has been reserved for the potential exercise of the warrants issued in connection with our November 2008 financing. In July 2008, we deregistered the remaining unissued shares (approximately $59 million worth of common stock) available under the shelf registration statement we had filed in October 2005. The 2005 shelf permitted the issuance of up to $100 million of registered shares of common stock. Also in July 2008, we amended our sales agreement with Cantor to allow for sales under our universal shelf registration rather than the 2005 shelf registration.

The source, timing and availability of any future financing will depend principally upon market conditions, interest rates and, more specifically, on our progress in our exploratory, preclinical and future clinical development programs. Funding may not be available when needed — at all, or on terms acceptable to us. Lack of necessary funds may require us, among other things, to delay, scale back or eliminate some or all of our research and product development programs, planned clinical trials, and/or our capital expenditures or to license our potential products or technologies to third parties. In addition, the decline in economic activity, together with the deterioration of the credit and capital markets, could have an adverse impact on potential sources of future financing.

Commitments

See Note 9, “Commitments and Contingencies” in the Notes to Consolidated Financial Statements of Part II, Item 8 of this Form 10-K for further information.

Off-Balance Sheet Arrangements

We have certain contractual arrangements that create potential risk for us and are not recognized in our Consolidated Balance Sheets. Discussed below are those off-balance sheet arrangements that have or are reasonably likely to have a material current or future effect on our financial condition, changes in financial condition, revenue or expenses, results of operations, liquidity, capital expenditures or capital resources.

Operating Leases

We lease various real properties under operating leases that generally require us to pay taxes, insurance, maintenance, and minimum lease payments. Some of our leases have options to renew.

We entered into and amended a lease agreement for an approximately 68,000 square foot facility located at the Stanford Research Park in Palo Alto, California. At December 31, 2008, we had a space-sharing agreement covering approximately 10,451 square feet of this facility. We receive base payments plus a proportionate share of the operating expenses based on square footage over the term of the space-sharing agreement. For the year 2009, we expect to receive, in aggregate, approximately $606,000 as part of the space-sharing agreement. As a result of the above transactions, our estimated net cash outlay for the rent and operating expenses of this facility will be approximately $3,244,000 for 2009.

We continue to have outstanding obligations in regard to our former facilities in Lincoln, Rhode Island. In 1997, we had entered into a fifteen-year lease for a scientific and administrative facility (the SAF) in a sale and leaseback arrangement. The lease includes escalating rent payments. For the year 2009, we expect to pay approximately $1,172,000 in operating lease payments and estimated operating expenses of approximately

$625,000, before receipt of sub-tenant income. For the year 2009, we expect to receive, in aggregate, approximately $212,000 in sub-tenant rent. As a result of the above transactions, our estimated cash outlay net of sub-tenant rent for the SAF will be approximately $1,585,000 for 2009.

With the exception of leases discussed above, we have not entered into any off balance sheet financial arrangements and have not established any special purpose entities. We have not guaranteed any debts or commitments of other entities or entered into any options on non-financial assets.

See Note 9, “Commitments and Contingencies,” in the Notes to Consolidated Financial Statements of Part II, Item 8 of this Form 10-K for further information.

Indemnification Agreement

In July 2008, we amended our 1997 and 2000 license agreements with NeuroSpheres. NeuroSpheres is the holder of certain patents exclusively licensed by us, including the six patents that are the basis of our patent infringement suits against Neuralstem. As part of the amendment, we agreed to pay all reasonable litigation costs, expenses and attorney’s fees incurred by NeuroSpheres in the declaratory judgment suit between us and Neuralstem. In return, we are entitled to off-set all litigation costs incurred in that suit against amounts that would otherwise be owed under the license agreements, such as annual maintenance fees, milestones and royalty payments. At this time, we cannot estimate the likely total costs of our pending litigation with Neuralstem, given the unpredictable nature of such proceedings, or the total amount we may ultimately owe under the NeuroSpheres license agreements. However, the ability to apply the offsets will run for the entire term of each license agreement. For these reasons, we have chosen to approximate the potential value of the offset receivable by assuming that all litigation charges actually incurred in the declaratory judgment action as of December 31, 2008, will ultimately be offset against royalties owed. Management will reevaluate this assumption on a quarterly basis based on actual costs and other relevant factors.

Contractual Obligations

In the table below, we set forth our legally binding and enforceable contractual cash obligations:

	Total Obligations at 12/31/08	Payable in 2009	Payable in 2010	Payable in 2011	Payable in 2012	Payable in 2013	Payable in 2014 and Beyond
Operating lease payments(1)	$ 8,380,319	$ 3,536,843	$ 1,767,304	$ 1,171,875	$ 1,171,875	$ 732,422	$ —
Capital lease (equipment)	26,483	19,862	6,621	—	—	—	—
Bonds Payable (principal & interest)(2)	1,344,563	244,572	242,559	242,321	240,666	237,593	136,852
Total contractual cash obligations	$ 9,751,365	$ 3,801,277	$ 2,016,484	$ 1,414,196	$ 1,412,541	$ 970,015	$ 136,852

(1) Operating lease payments exclude space-sharing and sub-lease income. See “Off-Balance Sheet Arrangements — Operating Leases” above for further information.

(2) See Note 9, “Commitments and Contingencies” in the Notes to Consolidated Financial Statements of Part II, Item 8 of this Form 10-K for further information.

Under license agreements with NeuroSpheres, Ltd., we obtained an exclusive patent license covering all uses of certain neural stem cell technology. We made up-front payments to NeuroSpheres of 65,000 shares of our common stock and $50,000, and will make additional cash payments as stated milestones are achieved. Effective in 2004, we began making annual $50,000 payments, creditable against certain royalties.

We do not have any material unconditional purchase obligations or commercial commitments related to capital expenditures, clinical development, clinical manufacturing, or other external services contracts at December 31, 2008.

Recent Accounting Pronouncements

In February 2008, the FASB issued FASB Staff Position (FSP) No. FAS 157-2, *Effective Date of FASB Statement No. 157* (FSP 157-2). FSP 157-2 delays the effective date of SFAS 157 for nonfinancial assets and nonfinancial liabilities, except for certain items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). We are currently evaluating the impact of SFAS 157 on our consolidated financial statements for items within the scope of FSP 157-2, which will become effective beginning with our first quarter of 2009.

In October 2008, the FASB issued FSP No. FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active* (FSP 157-3). FSP 157-3 clarifies the application of SFAS 157, in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. This FSP shall be effective upon issuance, including prior periods for which financial statements have not been issued. Revisions resulting from a change in the valuation technique or its application shall be accounted for as a change in accounting estimate. Adoption of FSP 157-3 did not have a material impact on our consolidated financial statement.

In April 2008, the FASB issued FSP No. 142-3, *Determination of the Useful Life of Intangible Assets* (FSP 142-3). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, *Goodwill and Other Intangible Assets* (SFAS 142). FSP 142-3 amends paragraph 11(d) of SFAS 142 to require an entity to use its own assumptions about renewal or extension of an arrangement, adjusted for the entity-specific factors in paragraph 11 of SFAS 142, even when there is likely to be substantial cost or material modifications. FSP 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years, with early adoption prohibited. We do not expect that the adoption of FSP 142-3 on January 1, 2009, will have a material effect on our consolidated financial condition and results of operations.

In December 2007, FASB issued SFAS No. 141R, *Business Combinations* (SFAS 141R). SFAS 141R provides companies with principles and requirements on how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, liabilities assumed, and any non controlling interest in the acquiree as well as the recognition and measurement of goodwill acquired in a business combination. SFAS 141R also requires certain disclosures to enable users of the financial statements to evaluate the nature and financial effects of the business combination. Acquisition costs associated with the business combination will generally be expensed as incurred. SFAS 141R is effective for business combinations occurring in fiscal years beginning after December 15, 2008. Early adoption of SFAS 141R is not permitted. We will be required to apply the guidance in SFAS 141R to any future business combinations effective January 1, 2009.

In June 2008, the FASB issued EITF Issue No. 07-05, *Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock*. EITF Issue No. 07-05 clarifies the determination of whether an instrument (or an embedded feature) is indexed to an entity's own stock, which would qualify as a scope exception under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. EITF Issue No. 07-05 is effective for financial statements issued for fiscal years beginning after December 15, 2008. Early adoption for an existing instrument is not permitted. We do not expect the adoption of EITF Issue No. 07-05 to have a material impact on our consolidated financial statements.

Item 7A. ***QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK***

Interest Rate and Credit Risks

Our interest-bearing assets, or interest-bearing portfolio, consists of cash, cash equivalents, restricted cash, and marketable debt securities. The balance of our interest-bearing portfolio, was approximately $34,031,000, or 85%, of total assets at December 31, 2008 and $38,414,000, or 79%, of total assets at December 31, 2007. Interest income earned on these assets was approximately $803,000 in 2008 and $2,460,000 in 2007. Our interest income is sensitive to changes in the general level of interest rates, primarily U.S. interest rates. At December 31, 2008, our debt securities were primarily composed of money market accounts comprised of US Treasuries and repurchase

agreements that are backed by US Treasuries. Generally, corporate obligations must have senior credit ratings of A2/A or the equivalent. See Note 1, “Summary of Significant Accounting Policies — Financial Instruments” and Note 2 “Financial Instruments” section in the Notes to Consolidated Financial Statements in Part II, Item 8 of this Form 10-K for further information.

Our long-term debt is comprised of industrial revenue bonds issued by the State of Rhode Island to finance the construction of our pilot manufacturing facility in Rhode Island. See Note 9, “Commitments and Contingencies,” section in the Notes to Consolidated Financial Statements in Part II, Item 8 of this Form 10-K for further information.

Equity Security and Foreign Exchange Risks

In July 2005, we entered into an agreement with ReNeuron Limited, a wholly owned subsidiary of ReNeuron Group plc, a listed UK corporation (collectively referred to as “ReNeuron”). As part of the agreement, we granted ReNeuron a license that allows ReNeuron to exploit their “c-mycER” conditionally immortalized adult human neural stem cell technology for therapy and other purposes. We received shares of ReNeuron common stock, as well as a cross-license to the exclusive use of ReNeuron’s technology for certain diseases and conditions, including lysosomal storage diseases, spinal cord injury, cerebral palsy, and multiple sclerosis. The agreement also provides for full settlement of any potential claims that either we or ReNeuron might have had against the other in connection with any putative infringement of certain of each party’s patent rights prior to the effective date of the agreement. In July and August 2005 we received approximately 8,836,000 ordinary shares of ReNeuron common stock (net of approximately 104,000 shares that were transferred to NeuroSpheres), and subsequently, as a result of certain anti-dilution provisions in the agreement, we received approximately 1,261,000 more shares, net of approximately 18,000 shares that were transferred to NeuroSpheres. In February 2007, we sold 5,275,000 shares for net proceeds of approximately $3,077,000. In the first quarter of 2009, we sold in aggregate, approximately 2,900,000 more shares and received net proceeds of approximately $512,000. As of March 10, 2009, we held approximately 1,922,000 shares of ReNeuron as marketable equity securities.

Changes in market value as a result of changes in market price per share or the exchange rate between the U.S. dollar and the British pound are accounted for under “other comprehensive income (loss)” if deemed temporary and are not recorded as “other income or loss” until the shares are disposed of and a gain or loss realized or an impairment is determined to be other than temporary. After considering various criteria, including, the duration of the impairment and our intent to liquidate all or part of this investment within a reasonably short period of time, we determined that the impairment of our investment in ReNeuron was other than temporary. For the year ended December 31, 2008, we recorded, on our “Consolidated Statements of Operations” under “Other Income (expense), a loss of $2,082,894, which is the difference between the investment’s carrying value and its quoted market price at that date.

Company/Stock Symbol	Exchange	Associated Risks	No. of Shares at December 31, 2008	Share Price at December 31, 2008 in GBP(£)	Exchange Rate at December 31, 2008 1 GBP = USD	Market Value in USD at December 31, 2008	Expected Future Cash Flows
ReNeuron Group plc/RENE	AIM (AIM is the London Stock Exchange’s Alternative Investment Market)	— Lower share price — Foreign currency translation — Liquidity — Bankruptcy	4,821,924	0.0265	1.4619	$ 186,803	(1)

(1) It is our intention to liquidate this investment when we can do so at prices acceptable to us. Although we are not legally restricted from selling the stock, the share price is subject to change and the volume traded has often been very small since the stock was listed on the AIM on August 12, 2005. The performance of ReNeuron Group plc stock since its listing does not predict its future value.

Item 8. ***FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA***

STEMCELLS, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
StemCells, Inc.

We have audited the accompanying consolidated balance sheets of StemCells, Inc. (a Delaware corporation) and subsidiary (collectively, the "Company") as of December 31, 2008 and 2007, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2008. 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 audits.

We conducted our audits 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of StemCells, Inc. and subsidiary as of December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with standards of the Public Company Accounting Oversight Board (United States), StemCells, Inc. and subsidiary's internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 11, 2009 expressed an unqualified opinion thereon.

/s/ GRANT THORNTON LLP

San Francisco, California
March 11, 2009

StemCells, Inc.

Consolidated Balance Sheets

	December 31, 2008	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 30,042,986	$ 9,759,169
Marketable securities, current	4,181,592	26,696,413
Other receivables	164,204	264,631
Note receivable	298,032	1,000,000
Prepaid assets	645,242	1,032,482
Total current assets	35,332,056	38,752,695
Marketable securities, non current	—	3,150,971
Property, plant and equipment, net	3,173,468	3,905,404
Other assets, non-current	2,079,278	1,710,829
Intangible assets, net	645,538	762,667
Total assets	$ 41,230,340	$ 48,282,566
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,078,123	$ 1,813,595
Accrued expenses and other liabilities	2,261,245	2,462,252
Accrued wind-down expenses, current	1,420,378	1,374,632
Deferred revenue, current	43,909	43,909
Capital lease obligation, current	18,739	17,530
Deferred rent, current	346,930	290,391
Bonds payable, current	149,167	136,250
Total current liabilities	5,318,491	6,138,559
Capital lease obligation, non-current	6,529	25,269
Bonds payable, non-current	860,000	1,009,166
Fair value of warrant liability	8,439,931	—
Deposits and other long-term liabilities	466,211	527,804
Accrued wind-down expenses, non-current	4,092,939	4,768,859
Deferred rent, non-current	90,215	437,144
Deferred revenue, non-current	147,039	163,865
Total liabilities	19,421,355	13,070,666
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Common stock, $.01 par value; 250,000,000 shares authorized; issued and outstanding 94,945,603 at December 31, 2008 and 80,681,087 at December 31, 2007	949,455	806,810
Additional paid-in capital	279,868,802	264,603,711
Accumulated deficit	(259,001,524)	(229,914,747)
Accumulated other comprehensive loss	(7,748)	(283,874)
Total stockholders' equity	21,808,985	35,211,900
Total liabilities and stockholders' equity	$ 41,230,340	$ 48,282,566

See Notes to Consolidated Financial Statements.

StemCells, Inc.

Consolidated Statements of Operations

	Year Ended December 31,		
	2008	2007	2006
Revenue:			
Revenue from licensing agreements and grants	$ 231,730	$ 56,722	$ 92,850
Operating expenses:			
Research and development	17,808,009	19,937,426	13,600,433
General and administrative	8,295,554	7,927,443	7,154,042
Wind-down expenses	866,199	783,022	709,209
Total operating expenses	26,969,762	28,647,891	21,463,684
Operating loss	(26,738,032)	(28,591,169)	(21,370,834)
Other income (expense):			
License and settlement agreement, net	—	550,467	103,359
Realized gain on sale of marketable securities	—	715,584	—
Other than temporary impairment of marketable securities	(2,082,894)	—	—
Change in fair value of warrant liability	(937,241)	—	—
Interest income	803,095	2,459,820	2,479,740
Interest expense	(109,762)	(123,606)	(143,001)
Other expense, net	(21,943)	(33,898)	(17,644)
Total other income (expense), net	(2,348,745)	3,568,367	2,422,454
Net loss	$ (29,086,777)	$ (25,022,802)	$ (18,948,380)
Basic and diluted net loss per share	$ (0.35)	$ (0.31)	$ (0.25)
Shares used to compute basic and diluted loss per share	82,716,455	79,772,351	74,611,196

See Notes to Consolidated Financial Statements.

StemCells, Inc.

Consolidated Statements of Stockholders' Equity

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount				
Balances, December 31, 2005	65,396,022	$ 653,960	$ 217,919,336	$ (185,943,565)	$ (254,147)	$ 32,375,584
Comprehensive loss						
Net loss	—	—	—	(18,948,380)	—	(18,948,380)
Change in unrealized gain on securities available-for-sale	—	—	—	—	3,442,125	3,442,125
Comprehensive loss						(15,506,255)
Issuance of common stock related to equity financing net of issuance cost of $2,418,467	11,750,820	117,508	33,304,026	—	—	33,421,534
Common stock issued for licensing agreements	3,848	38	9,962	—	—	10,000
Common stock issued pursuant to employee benefit plan	50,120	501	121,955	—	—	122,456
Compensation expense from grant of options and stock (fair value)	—	—	2,409,509	—	—	2,409,509
Exercise of employee and consultant stock options	319,094	3,191	545,088	—	—	548,279
Exercise of warrants	526,400	5,264	989,632	—	—	994,896
Balances, December 31, 2006	78,046,304	780,462	255,299,508	(204,891,945)	3,187,978	54,376,003
Comprehensive loss						
Net loss	—	—	—	(25,022,802)	—	(25,022,802)
Change in unrealized loss on securities available-for-sale	—	—	—	—	(3,471,852)	(3,471,852)
Comprehensive loss						(28,494,654)
Issuance of common stock related to equity financing net of issuance cost of $297,465	1,807,000	18,070	4,816,983	—	—	4,835,053
Common stock issued for licensing agreements	3,865	39	9,961	—	—	10,000
Common stock issued pursuant to employee benefit plan	73,074	731	172,429	—	—	173,160
Compensation expense from grant of options and stock (fair value)	—	—	3,008,315	—	—	3,008,315
Exercise of employee stock options	175,186	1,752	208,521	—	—	210,273
Exercise of warrants	575,658	5,756	1,087,994	—	—	1,093,750
Balances, December 31, 2007	80,681,087	806,810	264,603,711	(229,914,747)	(283,874)	35,211,900
Comprehensive loss						
Net loss	—	—	—	(29,086,777)	—	(29,086,777)
Change in unrealized loss on securities available-for-sale	—	—	—	—	276,126	276,126
Comprehensive loss						(28,810,651)
Issuance of common stock and warrants, net of issuance cost of $1,432,539	13,998,704	139,987	11,184,188	—	—	11,324,175
Common stock issued for licensing agreements	6,924	69	9,931	—	—	10,000
Common stock issued pursuant to employee benefit plan	144,188	1,442	189,724	—	—	191,166
Compensation expense from grant of options, restricted stock units and stock (fair value)	—	—	3,754,871	—	—	3,754,871
Exercise of employee and director stock options	114,700	1,147	126,377	—	—	127,524
Balances, December 31, 2008	94,945,603	$ 949,455	$ 279,868,802	$ (259,001,524)	$ (7,748)	$ 21,808,985

See Notes to Consolidated Financial Statements.

StemCells, Inc.

Consolidated Statements of Cash Flows

	Year Ended December 31,		
	2008	2007	2006
Cash flows from operating activities:			
Net loss	$ (29,086,777)	$ (25,022,802)	$ (18,948,380)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	1,186,428	1,174,510	1,044,688
Issue of shares and options in exchange for services	3,946,037	3,181,475	2,531,966
(Gain) loss on disposal of fixed assets	—	(1,500)	1,573
Non-cash income from license and settlement agreement, net	—	(550,467)	(103,359)
Gain on sale of marketable securities	—	(715,584)	—
Other than temporary impairment of marketable securities	2,082,894	—	—
Change in fair value of warrant liability	937,241	—	—
Changes in operating assets and liabilities:			
Other receivables	100,427	218,219	(280,931)
Prepaid assets	387,240	86,985	(732,501)
Other assets, net	(358,449)	19,532	56,270
Accounts payable and accrued expenses	(936,479)	1,601,180	554,245
Accrued wind-down expenses	(630,174)	(606,766)	(555,469)
Deferred revenue	(16,826)	10,257	197,517
Deferred rent	(290,390)	(232,198)	105,735
Deposits and other long-term liabilities	(61,593)	(19,587)	24,526
Net cash used in operating activities	(22,740,421)	(20,856,746)	(16,104,120)
Cash flows from investing activities:			
Purchase of marketable debt securities	(4,822,684)	(37,029,744)	—
Sales or maturity of marketable debt securities	28,681,708	9,168,183	—
Proceeds from sale of marketable equity securities	—	3,074,654	—
Repayment received under note receivable	1,000,000	—	—
Advance made under note receivable	(298,032)	(1,000,000)	—
Purchases of property, plant and equipment	(312,988)	(1,319,374)	(1,258,749)
Purchase of intangibles and other assets	(24,375)	(49,375)	(38,375)
Net cash provided by (used in) investing activities	24,223,629	(27,155,656)	(1,297,124)
Cash flows from financing activities:			
Proceeds from issuance of common stock, net	18,826,865	4,835,053	33,421,534
Proceeds from the exercise of stock options	127,524	210,273	548,279
Proceeds from the exercise of warrants	—	1,093,750	994,896
Proceeds (repayments) of capital lease obligations	(17,531)	42,799	(54,676)
Repayments of bonds payable	(136,249)	(205,833)	(254,168)
Net cash provided by financing activities	18,800,609	5,976,042	34,655,865
Increase (decrease) in cash and cash equivalents	20,283,817	(42,036,360)	17,254,621
Cash and cash equivalents at beginning of year	9,759,169	51,795,529	34,540,908
Cash and cash equivalents at end of the year	$ 30,042,986	$ 9,759,169	$ 51,795,529
Supplemental disclosure of cash flow information:			
Interest paid	$ 109,762	$ 123,606	$ 143,001
Supplemental schedule of non-cash investing and financing activities:			
Stock issued for licensing agreements(1)	$ 10,000	$ 10,000	$ 10,000

(1) Under terms of a license agreement with the California Institute of Technology (Cal Tech), annual fees of $5,000 were due on each of two patents to which StemCells holds a license from Cal Tech, payable in cash or stock at our choice. We elected to pay the fees in common stock and issued shares of 6,924 in 2008, 3,865 in 2007 and 3,848 in 2006 to Cal Tech.

See Notes to Consolidated Financial Statements.

StemCells, Inc.

Notes to Consolidated Financial Statements
December 31, 2008

Note 1. Summary of Significant Accounting Policies

Nature of Business

StemCells, Inc., a Delaware corporation, is a biopharmaceutical company that operates in one segment, the development of novel cell-based therapeutics designed to treat human diseases and disorders.

The accompanying consolidated financial statements have been prepared on the basis that we will continue as a going concern. Since inception, we have incurred annual losses and negative cash flows from operations and have an accumulated deficit of approximately $259 million at December 31, 2008. We have not derived revenue from the sale of products, and do not expect to receive revenue from product sales for at least several years. We may never be able to realize sufficient revenue to achieve or sustain profitability in the future.

We expect to incur additional operating losses over the foreseeable future. We have limited liquidity and capital resources and must obtain significant additional capital and other resources in order to sustain our product development efforts, to provide funding for the acquisition of technologies and intellectual property rights, preclinical and clinical testing of our anticipated products, pursuit of regulatory approvals, acquisition of capital equipment, laboratory and office facilities, establishment of production capabilities, general and administrative expenses and other working capital requirements. We rely on our cash reserves, proceeds from equity and debt offerings, proceeds from the transfer or sale of intellectual property rights, equipment, facilities or investments, government grants and funding from collaborative arrangements, to fund our operations. If we exhaust our cash reserves and are unable to obtain adequate financing, we may be unable to meet our operating obligations and we may be required to initiate bankruptcy proceedings. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

Principles of Consolidation

The consolidated financial statements include the accounts of StemCells, Inc., and our wholly owned subsidiary, StemCells California, Inc. Material intercompany accounts and transactions have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make judgments, assumptions and estimates that affect the amounts reported in our consolidated financial statements and accompanying notes. Actual results could differ materially from those estimates.

Significant estimates include the following:

- Accrued wind-down expenses (See Note 8).
- The fair value of share-based awards recognized as compensation expense in accordance with the provisions of Statement of Financial Accounting Standards No. 123 (Revised 2004) “Share Based Payment” (SFAS 123R). (See Note 7).
- Valuation allowance against net deferred tax assets (See Note 14).
- The fair value of warrants recorded as a liability in accordance with Emerging Issues Task Force Issue No. 00-19, *Accounting for Derivative Financial Instruments Indexed to and Potentially Settled in a Company’s Own Stock* EITF 00-19. The warrants were issued as part of our November 2008 financing (See Note 10).

Financial Instruments

Cash Equivalents and Marketable Securities

All money market and highly liquid investments with a maturity of 90 days or less at the date of purchase are classified as cash equivalents. Highly liquid investments with maturities of 365 days or less not previously classified as cash equivalents are classified as marketable securities, current. Investments with maturities greater than 365 days are classified as marketable securities, non-current. Our marketable debt and equity securities have been classified and accounted for as available-for-sale. Management determines the appropriate classification of its investments in marketable debt and equity securities at the time of purchase and reevaluates the available-for-sale designations as of each balance sheet date. These securities are carried at fair value (see Note 2, "Financial Instruments," below), with the unrealized gains and losses reported as a component of stockholders' equity. The cost of securities sold is based upon the specific identification method.

If the estimated fair value of a security is below its carrying value, we evaluate whether we have the intent and ability to retain our investment for a period of time sufficient to allow for any anticipated recovery to the cost of the investment, and whether evidence indicating that the cost of the investment is recoverable within a reasonable period of time outweighs evidence to the contrary. Other-than-temporary declines in estimated fair value of all marketable securities are charged to "other income (expense), net." After considering various criteria, including the duration of the impairment and our intent to liquidate all or part of our investment within a reasonably short period of time, we determined that the impairment of our investment in ordinary shares of ReNeuron (marketable equity securities) (see Note 2, "Financial Instruments," below), was other than temporary. For the year ended December 31, 2008, we recorded on our "Consolidated Statements of Operations" under "Other Income (expense)" a loss of $2,082,894, which is the difference between the investment's carrying value and its quoted market price at that date. No other than temporary impairment was recognized during the years ended December 31, 2007 and 2006.

Other Receivables

Our non-trade receivables generally consist of interest income on our financial instruments, revenue from licensing agreements and rent from our sub-lease tenants.

Estimated Fair Value of Financial Instruments

The estimated fair value of cash and cash equivalents, other receivables, accounts payable and the current portion of the bonds payable approximates their carrying values due to the short maturities of these instruments. The estimated fair value of our marketable debt securities approximates its carrying value based on current rates available to us for similar debt securities.

Property, Plant and Equipment

Property, plant, and equipment, including those held under capital lease, are stated at cost. Depreciation is computed by use of the straight-line method over the estimated useful lives of the assets, or the lease term if shorter, as follows:

Building and improvements	3 - 20 years
Machinery and equipment	3 - 10 years
Furniture and fixtures	3 - 10 years

Repairs and maintenance costs are expensed as incurred.

Intangible Assets (Patent and License Costs)

Prior to fiscal year 2001, we capitalized certain patent costs, which are being amortized over the estimated life of the patent and would be expensed at the time such patents are deemed to have no continuing value. Since 2001, all

patent costs are expensed as incurred. License costs are capitalized and amortized over the estimated life of the license agreement.

Impairment of Long-Lived Assets

We review property, plant, and equipment and certain identifiable intangibles for impairment in accordance with Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of.* Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of these assets is measured by comparing the carrying amount to future undiscounted cash flows the assets are expected to generate. If property, plant, and equipment and patents are considered to be impaired, the impairment to be recognized equals the amount by which the carrying value of the assets exceeds its estimated fair market value. No such impairment was recognized during the years ended December 31, 2008, 2007 and 2006.

Warrant Liability

We account for our warrants in accordance with EITF 00-19, which defines how freestanding contracts that are indexed to and potentially settled in a company's own stock should be measured and classified. The general concept under EITF 00-19 is that contracts that could require net-cash settlement should be classified as assets or liabilities and contracts that only provide for settlement in shares should be classified as equity. In order for a contract to be classified as equity, each of the specific conditions enumerated in EITF 00-19 must be met; these conditions are intended to identify situations in which net cash settlement could be forced upon the issuer. As part of our November 2008 financing, we issued warrants with a five year term to purchase 10,344,828 shares of our common stock at $2.30 per share. In accordance with EITF 00-19, we are required to classify the fair value of the warrants issued as a liability, with subsequent changes in fair value to be recorded as income (loss) on change in fair value of warrant liability. The fair value of the warrants is determined using the Black-Scholes-Merton (Black-Scholes) option pricing model and is affected by changes in inputs to that model including our stock price, expected stock price volatility and contractual term. We will continue to classify the fair value of the warrants as a liability until the warrants are exercised, expire or are amended in a way that would no longer require these warrants to be classified as a liability.

Revenue Recognition

We currently recognize revenue resulting from the licensing and use of our technology and intellectual property. Such licensing agreements may contain multiple elements, such as up-front fees, payments related to the achievement of particular milestones and royalties. Revenue from up-front fees for licensing agreements that contain multiple elements are generally deferred and recognized on a straight-line basis over the term of the agreement. Fees associated with substantive at risk performance-based milestones are recognized as revenue upon completion of the scientific or regulatory event specified in the agreement, and royalties received are recognized as earned. Revenue from collaborative agreements and grants are recognized as earned upon either the incurring of reimbursable expenses directly related to the particular research plan or the completion of certain development milestones as defined within the terms of the relevant collaborative agreement or grant.

Research and Development Costs

Our research and development expenses consist primarily of salaries and related personnel expenses, costs associated with clinical trials and regulatory submissions; costs associated with preclinical activities such as toxicology studies; certain patent-related costs such as licensing; facilities-related costs such as depreciation; lab equipment and supplies. Clinical trial expenses include payments to vendors such as clinical research organizations,

contract manufacturers, clinical trial sites, laboratories for testing clinical samples and consultants. All research and development costs are expensed as incurred.

Stock-Based Compensation

On January 1, 2006, we adopted SFAS No. 123 (revised 2004) (SFAS 123R), *Share-Based Payment*, SFAS 123R requires us to expense the fair value of our stock-based compensation awards to employees. We apply SFAS 123R to new awards, as well as to awards that vest, are modified, repurchased, or cancelled after the date of adoption. The compensation cost we record for these awards are based on their grant-date fair value as calculated and amortized over their vesting period. See Note 7, "Stock-Based Compensation" for further information.

We account for stock options granted to non-employees in accordance with SFAS 123 and Emerging Issues Task Force (EITF) 96-18 *Accounting For Equity Instruments That Are Issued To Other Than Employees For Acquiring, Or In Conjunction With Selling, Goods Or Services*, and accordingly, expense the estimated fair value of such options as calculated using the Black-Scholes model over the service period. The estimated fair value is re-measured at each reporting date and is amortized over the remaining service period.

Income Taxes

We account for income taxes in accordance with SFAS No. *109, Accounting for Income Taxes* (SFAS 109) and FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109*, as amended by FASB Staff Position No. 48-1 (FIN 48). This approach requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Income tax receivables and liabilities and deferred tax assets and liabilities are recognized based on the amounts that more likely than not will be sustained upon ultimate settlement with taxing authorities.

Developing our provision for income taxes and analyzing our uncertain tax positions requires significant judgment and knowledge of federal and state income tax laws, regulations and strategies, including the determination of deferred tax assets and liabilities and, any valuation allowances that may be required for deferred tax assets.

We assess the realization of our deferred tax assets to determine whether an income tax valuation allowance is required. Based on such evidence that can be objectively verified, we determine whether it is more likely than not that all or a portion of the deferred tax assets will be realized. The main factors that we consider include:

- Cumulative losses in recent years;
- Income/losses expected in future years;
- The applicable statute of limitations.

Tax benefits associated with uncertain tax positions are recognized in the period in which one of the following conditions is satisfied: (1) the more likely than not recognition threshold is satisfied; (2) the position is ultimately settled through negotiation or litigation; or (3) the statute of limitations for the taxing authority to examine and challenge the position has expired. Tax benefits associated with an uncertain tax position are derecognized in the period in which the more likely than not recognition threshold is no longer satisfied.

We concluded that the realization of deferred tax assets is dependent upon future earnings, if any, the timing and amount of which are uncertain. Accordingly, the net deferred tax assets have been fully offset by a valuation allowance.

Net Loss per Share

Basic net loss per share is computed based on the weighted-average number of shares of our common stock outstanding during the period. Diluted net loss per share is computed based on the weighted-average number of shares of our common stock and other dilutive securities.

The following are the basic and dilutive net loss per share computations for the last three fiscal years:

	2008	2007	2006
Net loss	$ (29,086,777)	$ (25,022,802)	$ (18,948,380)
Weighted average shares outstanding used to compute basic and diluted net loss per share	82,716,455	79,772,351	74,611,196
Basic and diluted net loss per share	$ (0.35)	$ (0.31)	$ (0.25)

Outstanding options, restricted stock units and warrants to purchase shares of our common stock were excluded from the computation of diluted net loss per share because the effect would have been anti-dilutive for all periods presented below:

	2008	2007	2006
Outstanding options	8,340,530	9,028,810	8,501,503
Restricted stock units	1,650,000	—	—
Outstanding warrants	11,599,828	1,355,000	1,930,658
Total	21,590,358	10,383,810	10,432,161

Comprehensive Income (Loss)

Comprehensive income (loss) is comprised of net losses and other comprehensive income (or "OCI"). OCI includes certain changes in stockholders' equity that are excluded from net losses. Specifically, we include in OCI changes in unrealized gains and losses on our marketable securities. Comprehensive loss for the years ended December 31, 2008, 2007 and 2006 has been reflected in the Consolidated Statements of Stockholders' Equity.

The activity in OCI is as follows:

	2008	2007	2006
(Decrease) increase in unrealized gains(losses) on marketable securities	$ (1,806,768)	$ (2,756,268)	$ 3,442,125
Recognition in net loss, other than temporary impairment of marketable securities	2,082,894	—	—
Reclassification adjustment for gains on marketable securities included in net income	—	(715,584)	—
Other comprehensive income (loss)	$ 276,126	$ (3,471,852)	$ 3,442,125

Recent Accounting Pronouncements

In February 2008, the FASB issued FASB Staff Position (FSP) No. FAS 157-2, *Effective Date of FASB Statement No. 157* (FSP 157-2). FSP 157-2 delays the effective date of SFAS 157 for nonfinancial assets and nonfinancial liabilities, except for certain items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). We are currently evaluating the impact of SFAS 157 on our consolidated financial statements for items within the scope of FSP 157-2, which will become effective beginning with our first quarter of 2009.

In October 2008, the FASB issued FSP No. FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active* (FSP 157-3). FSP 157-3 clarifies the application of SFAS 157, in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. This FSP shall be effective upon issuance, including prior periods for which financial statements have not been issued. Revisions resulting from a change in the valuation technique or its application shall be accounted for as a change in accounting estimate. Adoption of FSP 157-3 did not have a material impact on our consolidated financial statements.

In April 2008, the FASB issued FSP No. 142-3, *Determination of the Useful Life of Intangible Assets* (FSP 142-3). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, *Goodwill and Other Intangible Assets* (SFAS 142). FSP 142-3 amends paragraph 11(d) of SFAS 142 to require an entity to use its own assumptions about renewal or extension of an arrangement, adjusted for the entity-specific factors in paragraph 11 of SFAS 142, even when there is likely to be substantial cost or material modifications. FSP 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years, with early adoption prohibited. We do not expect that the adoption of FSP 142-3 on January 1, 2009, to have a material effect on our consolidated financial condition and results of operations.

In December 2007, FASB issued SFAS No. 141R, *Business Combinations* (SFAS 141R). SFAS 141R provides companies with principles and requirements on how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, liabilities assumed, and any non controlling interest in the acquiree as well as the recognition and measurement of goodwill acquired in a business combination. SFAS 141R also requires certain disclosures to enable users of the financial statements to evaluate the nature and financial effects of the business combination. Acquisition costs associated with the business combination will generally be expensed as incurred. SFAS 141R is effective for business combinations occurring in fiscal years beginning after December 15, 2008. Early adoption of SFAS 141R is not permitted. We will be required to apply the guidance in SFAS 141R to any future business combinations effective January 1, 2009

In June 2008, the FASB issued EITF Issue No. 07-05, *Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock*. EITF Issue No. 07-05 clarifies the determination of whether an instrument (or an embedded feature) is indexed to an entity's own stock, which would qualify as a scope exception under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. EITF Issue No. 07-05 is effective for financial statements issued for fiscal years beginning after December 15, 2008. Early adoption for an existing instrument is not permitted. We do not expect the adoption of EITF Issue No. 07-05 to have a material impact on our consolidated financial statements.

Note 2. Financial Instruments

Cash, cash equivalents and marketable securities

The following table summarizes the fair value of our cash, cash equivalents and available-for-sale securities held in our investment portfolio:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2008				
Cash	$ 243,883	$ —	$ —	$ 243,883
Cash equivalents (money market accounts)	29,799,103	—	—	29,799,103
Marketable debt securities, current (maturity within 1 year)	4,002,537	—	(7,748)	3,994,789
Marketable equity securities, current	186,803	—	—	186,803
Total cash, cash equivalents, and marketable securities	$ 34,232,326	$ —	$ (7,748)	$ 34,224,578
December 31, 2007				
Cash	$ 549,544	$ —	$ —	$ 549,544
Money market accounts	5,079,564	—	—	5,079,564
Marketable debt securities (maturity within 90 days)	4,130,404	—	(343)	4,130,061
Total cash equivalents	9,209,968	—	(343)	9,209,625
Marketable debt securities (maturity within 1 year)	26,680,824	19,137	(3,548)	26,696,413
Total marketable securities, current	26,680,824	19,137	(3,548)	26,696,413
Marketable debt securities	1,180,394	9,109	—	1,189,503
Marketable equity securities	2,269,697	—	(308,229)	1,961,468
Total marketable securities, non-current	3,450,091	9,109	(308,229)	3,150,971
Total cash, cash equivalents, and marketable securities	$ 39,890,427	$ 28,246	$ (312,120)	$ 39,606,553

At December 31, 2008, our investment in marketable debt securities were in money market accounts composed primarily of US Treasury securities and repurchase agreements that are backed by US Treasury securities.

Our investment in marketable equity securities consists of ordinary shares of ReNeuron Group plc, a publicly listed UK corporation. In July 2005, we entered into an agreement with ReNeuron. As part of the agreement, we granted ReNeuron a license that allows ReNeuron to exploit their “c-mycER” conditionally immortalized adult human neural stem cell technology for therapy and other purposes. We received shares of ReNeuron common stock, as well as a cross-license to the exclusive use of ReNeuron’s technology for certain diseases and conditions, including lysosomal storage diseases, spinal cord injury, cerebral palsy, and multiple sclerosis. The agreement also provides for full settlement of any potential claims that either we or ReNeuron might have had against the other in connection with any putative infringement of certain of each party’s patent rights prior to the effective date of the agreement. In July and August 2005 we received approximately 8,836,000 ordinary shares of ReNeuron common stock (net of approximately 104,000 shares that were transferred to NeuroSpheres), and subsequently, as a result of

certain anti-dilution provisions in the agreement, we received approximately 1,261,000 more shares, net of approximately 18,000 shares that were transferred to NeuroSpheres. In February 2007, we sold 5,275,000 shares for net proceeds of approximately $3,075,000. We recognized approximately $716,000 as realized gain from this transaction. We owned approximately 4,822,000 ordinary shares of ReNeuron at December 31, 2008 and 2007.

If the fair value of a security is below its carrying value, we evaluate whether we have the intent and ability to retain our investment for a period of time sufficient to allow for any anticipated recovery to the cost of the investment, and whether evidence indicating that the cost of the investment is recoverable within a reasonable period of time outweighs evidence to the contrary. Other-than-temporary declines in estimated fair value of all marketable securities are charged to "other income (expense), net." After considering various criteria, including the duration of the impairment and our intent to liquidate all or part of our investment within a reasonably short period of time, we determined that the impairment of our investment in ordinary shares of ReNeuron (marketable equity securities) (see Note 2, "Financial Instruments," below), was other than temporary. For the year ended December 31, 2008, we recorded on our "Consolidated Statements of Operations" under "Other Income (expense)" a loss of $2,082,894, which is the difference between the investment's carrying value and its quoted market price at that date. No other than temporary impairment was recognized during the years ended December 31, 2007 and 2006.

Changes in fair value as a result of changes in market price per share or the exchange rate between the US dollar and the British pound are accounted for under "other comprehensive income (loss)" if deemed temporary and are not recorded as "other income or loss" until the shares are disposed of and a gain or loss realized or an impairment is considered other than temporary. After considering various criteria, including, the duration of the impairment and our intent to sell within a reasonably short period of time, we determined that the impairment of our investment in shares of ReNeuron (marketable equity securities) was other than temporary. For the year ended December 31, 2008, we recorded, on our "Consolidated Statements of Operations" under "Other Income (expense)", a loss of $2,082,894, which is the difference between the investment's carrying value and its quoted market price at that date. No other than temporary impairment was recognized during the years ended December 31, 2007 and 2006.

In accordance with FASB Staff Position FAS 115-1 and FAS 124-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*, the following table shows the gross unrealized losses and fair value for those investments that were in an unrealized loss position as of December 31, 2008, aggregated by investment category and the length of time that individual securities have been in a continuous loss position:

	Less than 12 Months		12 Months of Greater		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
December 31, 2008						
Marketable debt securities	$ 3,994,789	$ (7,748)	$ —	$ —	$ 3,994,789	$ (7,748)
Marketable equity securities	186,803	—	—	—	186,803	—
Total	$ 4,181,592	$ (7,748)	$ —	$ —	$ 4,181,592	$ (7,748)

Unrealized losses in our marketable debt securities portfolio are due to four U.S. corporate debt securities primarily consisting of commercial paper. For these securities, the unrealized losses are primarily due to a change in interest rates. Because we have the ability and intent to hold these investments until a forecasted recovery of carrying value, which may be maturity or call date, we do not consider these investments to be other-than-temporarily impaired as of December 31, 2008. See Note 1, "Summary of Significant Accounting Policies — Cash Equivalents and Marketable Securities," for further discussion of the criteria used to determine impairment of our marketable securities.

Note Receivable

In December 2007, we committed to make a secured loan of up to $3.8 million to Progenitor Cell Therapy, LLC (PCT) in return for a period of exclusivity to allow for due diligence and negotiation of a possible acquisition transaction. Of this amount, $1.0 million was lent and outstanding at December 31, 2007 with the maturity date within twelve months from the effective date of the loan. In March 2008, we terminated discussions to acquire PCT. In April 2008 we were repaid the loan in accordance with its terms.

In December 2008, we made a secured loan of £200,000 (approximately $298,000) to Stem Cell Sciences Plc in connection with a potential acquisition transaction. The loan accrues interest at 8% per annum and is repayable on June 23, 2009 if the acquisition of SCS does not occur before then.

Note 3. Fair Value Measurement

Effective January 1, 2008, we adopted SFAS 157, except as it applies to the nonfinancial assets and nonfinancial liabilities subject to FSP SFAS 157-2. SFAS 157 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. As a basis for considering such assumptions, SFAS 157 establishes a three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

Level 1 — Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 — Directly or indirectly observable inputs other than in Level 1, that include quoted prices for similar assets or liabilities in active markets or quoted prices for identical or similar assets or liabilities in markets that are not active.

Level 3 — Unobservable inputs which are supported by little or no market activity that reflects the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

In accordance with SFAS 157, we measure our financial assets and liabilities at fair value. Our cash equivalents and marketable securities are classified within Level 1 or Level 2. This is because our cash equivalents and marketable securities are valued primarily using quoted market prices or alternative pricing sources and models utilizing market observable inputs. We currently do not have any Level 3 financial assets or liabilities.

The following table presents assets and liabilities measured at fair value:

	Fair Value Measurement at Reporting Date Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	As of December 31, 2008
Assets			
Cash Equivalents:			
Money market funds	$ 356,000	$ —	$ 356,000
U.S. Treasury obligations	29,443,103	—	29,443,103
Marketable Securities:			
Equity securities	186,803	—	186,803
Corporate bonds	—	2,798,580	2,798,580
Asset-backed securities	—	1,196,209	1,196,209
Total assets	$ 29,985,906	$ 3,994,789	$ 33,980,695
Liabilities			
Bond obligation	$ —	$ 1,009,166	$ 1,009,166

Note 4. Property, Plant and Equipment

Property, plant and equipment balances at December 31 are summarized below:

	2008	2007
Building and improvements	$ 3,404,969	$ 3,397,639
Machinery and equipment	6,308,603	6,002,945
Furniture and fixtures	369,068	369,068
	10,082,640	9,769,652
Less accumulated depreciation and amortization	(6,909,172)	(5,864,248)
Property, plant and equipment, net	$ 3,173,468	$ 3,905,404

Depreciation expense was approximately $1,045,000 in 2008, $1,012,000 in 2007, and $944,000 in 2006.

Note 5. Intangible and Other Assets

The components of our intangible assets at December 31 are summarized below:

Intangible Asset Class	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
2008			
Patents	$ 979,612	$ (515,255)	$ 464,357
License agreements	1,785,998	(1,604,817)	181,181
Total intangible assets	$ 2,765,610	$ (2,120,072)	$ 645,538
2007			
Patents	$ 979,612	$ (459,452)	$ 520,160
License agreements	1,761,623	(1,519,116)	242,507
Total intangible assets	$ 2,741,235	$ (1,978,568)	$ 762,667

Amortization expense was approximately $142,000 in 2008, $163,000 in 2007, and $101,000 in 2006.

The expected future annual amortization expense based on current balances of our intangible assets is as follows:

For the year ending December 31:	
2009	$119,687
2010	$107,499
2011	$ 69,718
2012	$ 68,545
2013	$ 66,212

Other assets at December 31 are summarized below:

	2008	2007
Prepaid royalties	$ 551,199	$ 180,250
Security deposit (building lease)	750,000	752,500
Restricted cash (letter of credit)	778,079	778,079
Total other non-current assets	$ 2,079,278	$ 1,710,829

Note 6. Accrued Expenses and Other

Accrued expenses at December 31 are summarized below:

	2008	2007
External services	$ 466,360	$ 360,340
Employee compensation	1,526,115	1,885,249
Other	268,770	216,663
Total accrued expenses and other liabilities	$ 2,261,245	$ 2,462,252

Note 7. Stock-Based Compensation

We currently grant options under three equity incentive plans and as of December 31, 2008, we had 15,227,243 shares authorized under these three plans. At our annual stockholders meeting held on June 12,

2007, our stockholders approved an amendment to our 2006 Equity Incentive Plan to provide for an annual increase in the number of shares of common stock available for issuance under the plan each January 1 (beginning January 1, 2008) equal to 4% of the outstanding common shares as of that date. The amendment further provided an aggregate limit of 30,000,000 shares issuable pursuant to stock based awards under the plan. Under these three plans we may grant incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock, restricted stock units and performance-based shares to our employees, directors and consultants, at prices determined by our Board of Directors. Incentive stock options may only be granted to employees under these plans with a grant price not less than the fair market value on the date of grant.

Generally, stock options and restricted stock units granted to employees have a maximum term of ten years, and vest over a four year period from the date of grant; 25% vest at the end of one year, and 75% vest monthly over the remaining three-year service period. We may grant options with different vesting terms from time to time. Upon employee termination of service, any unexercised vested option will be forfeited three months following termination or the expiration of the option, whichever is earlier.

Our compensation expense for stock options and restricted stock units issued from our equity incentive plans for the last three fiscal years was as follows:

	2008	2007	2006
Research and development expense	$ 1,845,523	$ 1,347,239	$ 1,048,697
General and administrative expense	1,909,348	1,558,056	1,236,334
Total stock-based compensation expense and effect on net loss	$ 3,754,871	$ 2,905,295	$ 2,285,031

As of December 31, 2008, we have approximately $5,207,000 of total unrecognized compensation expense related to unvested awards granted under our various share-based plans that we expect to recognize over a weighted-average period of 2.1 years.

The fair value of options granted is estimated as of the date of grant using the Black-Scholes option pricing model and expensed on a pro-rata straight-line basis over the period in which the stock options vest. The Black-Scholes option pricing model requires certain assumptions as of the date of grant. The weighted-average assumptions used for the last three fiscal years are as follows:

	2008	2007	2006
Expected life (years)(1)	7.24	6.25	6.25
Risk-free interest rate(2)	3.23%	4.36%	4.72%
Expected volatility(3)	94.0%	95.2%	109.0%
Expected dividend yield(4)	0%	0%	0%

(1) The expected term represents the period during which our stock-based awards are expected to be outstanding. In 2008 we estimated this amount based on historical experience of similar awards, giving consideration to the contractual terms of the awards, vesting requirements, and expectation of future employee behavior, including post-vesting terminations. The expected term in 2007 and 2006 is equal to the average of the contractual life of the stock option and its vesting period as of the date of grant.

(2) The risk-free interest rate is based on U.S. Treasury debt securities with maturities close to the expected term of the option as of the date of grant.

(3) Expected volatility is based on historical volatility over the most recent historical period equal to the length of the expected term of the option as of the date of grant.

(4) We have neither declared nor paid dividends on any share of common stock and we do not expect to do so in the foreseeable future.

StemCells, Inc.

Notes to Consolidated Financial Statements — (Continued)

At the end of each reporting period we estimate forfeiture rates based on our historical experience within separate groups of employees and adjust the stock-based compensation expense accordingly.

A summary of our stock option activity and related information for the last three fiscal years is as follows:

	Outstanding Options			
	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value(1)
Balance at December 31, 2005	6,608,109	$ 3.02		
Granted	2,818,684	$ 2.38		
Exercised	(369,214)	$ 1.82		
Cancelled (forfeited and expired)	(556,076)	$ 2.82		
Balance at December 31, 2006	8,501,503	$ 2.88		
Granted	2,484,100	$ 2.33		
Exercised	(175,186)	$ 1.20		
Cancelled (forfeited and expired)	(1,781,607)	$ 4.91		
Balance at December 31, 2007	9,028,810	$ 2.36	7.26	$ 826,558
Granted	353,000	$ 1.24		
Exercised	(114,700)	$ 1.11		
Cancelled (forfeited and expired)	(926,580)	$ 2.44		
Balance at December 31, 2008	8,340,530	$ 2.32	6.55	$ 692,739
Exercisable at December 31, 2008	5,726,441	$ 2.33	5.76	$ 635,969
Vested and expected to vest(2)	7,927,918	$ 2.32	6.46	$ 685,157

(1) Aggregate intrinsic value represents the value of the closing price per share of our common stock on the last trading day of the fiscal period in excess of the exercise price multiplied by the number of options outstanding or exercisable.

(2) Shares include options vested and those expected to vest net of estimated forfeitures.

The estimated weighted average fair value per share of options granted was approximately $1.00 in 2008, $1.85 in 2007, and $2.37 in 2006, based on the assumptions in the Black-Scholes model discussed above. Total intrinsic value of options exercised at time of exercise was approximately $39,000 in 2008, $397,000 in 2007, and $453,000 in 2006.

The following is a summary of changes in unvested options:

Unvested Options	Number of Options	Weighted Average Grant Date Fair Value
Unvested options at December 31, 2007	4,428,209	$ 2.01
Granted	353,000	1.00
Vested	(1,792,976)	2.05
Cancelled	(374,144)	1.95
Unvested options at December 31, 2008	2,614,089	$ 1.85

The estimated fair value of options vested were approximately $3,671,000 in 2008, $3,173,000 in 2007 and $2,292,000 in 2006.

StemCells, Inc.

Notes to Consolidated Financial Statements — (Continued)

The following table presents weighted average exercise price and term information about significant option groups outstanding at December 31, 2008:

	Options Outstanding at December 31, 2008			
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Term (Yrs.)	Weighted Average Exercise Price	Aggregate Intrinsic Value at December 31, 2008
Less than $2.00	2,340,086	5.5	$ 1.17	$ 692,739
$2.00 — $3.99	5,312,661	7.1	$ 2.44	—
$4.00 — $5.99	687,783	6.1	$ 5.27	—
	8,340,530		$ 2.32	$ 692,739

	Vested Options Outstanding at December 31, 2008	
Range of Exercise Prices	Number Outstanding	Weighted Average Exercise Price
Less than $2.00	1,981,126	$1.16
$2.00 — $3.99	3,161,619	$2.53
$4.00 — $5.99	583,696	$5.26
	5,726,441	$2.33

Restricted Stock Units

In March 2008, we granted restricted stock units to certain employees that entitle the holders to receive shares of our common stock upon vesting. These restricted stock units vest over a three-year period from the date of grant: one-third of the award will vest on each grant date anniversary over the following three years. The fair value of restricted stock units granted are based upon the market price of the underlying common stock as if it were vested and issued on the date of grant.

A summary of our restricted stock unit activity for the year ended December 31, 2008 is as follows:

	Number of RSUs	Weighted-Average Grant Date Fair Value
Outstanding at January 1, 2008	—	—
Granted	1,650,000	$ 1.26
Exercised	—	—
Cancelled	—	—
Outstanding at December 31, 2008	1,650,000	$ 1.26
Vested RSUs outstanding at December 31, 2008	—	—

Stock Appreciation Rights

In July 2006, we granted cash-settled Stock Appreciation Rights (SARs) to certain employees under the 2006 Equity Incentive Plan. The SARs give the holder the right, upon exercise, to the difference between the price per share of our common stock at the time of exercise and the exercise price of the SAR. The exercise price of the SAR is equal to the market price of our common stock at the date of grant. The SARs vest 25% on the first anniversary of the grant date and 75% vest monthly over the remaining three-year service period. Compensation expense is based on the fair value of SARs which is calculated using the Black-Scholes option pricing model. The share-based compensation expenses and liability are re-measured at each reporting date through the date of settlement. The share-based compensation liability as re-measured at December 31, 2008 was $500,720.

The following is a summary of the changes in non-vested SARs for the last three fiscal years:

	2008		2007		2006	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Outstanding at January 1,	1,478,219	$2.00	1,564,599	$2.00	—	—
Granted	—	—	—	—	1,564,599	$2.00
Exercised	—	—	—	—	—	—
Forfeited	(47,390)		(86,380)	$2.00	—	—
Outstanding at December 31,	1,430,829	$2.00	1,478,219	$2.00	1,564,599	$2.00
Exercisable at December 31,	864,467	$2.00	506,754	$2.00	—	—

The total compensation expense related to SARs was approximately $73,000 in 2008, $135,000 in 2007 and $294,000 in 2006. At December 31, 2008, approximately $318,000 of unrecognized compensation expense related to SARs is expected to be recognized over a weighted average period of approximately 1 year. The resulting effect on net loss and net loss per share attributable to common stockholders is not likely to be representative of the effects in future periods, due to changes in the fair value calculation which is dependent on the stock price, volatility, interest and forfeiture rates, additional grants and subsequent periods of vesting.

Note 8. Wind-down and exit costs

In October 1999, we relocated to California from Rhode Island and established a wind-down reserve for the estimated lease payments and operating costs of the Rhode Island facilities through an expected disposal date of June 30, 2000. We did not fully sublet the Rhode Island facilities in 2000. Even though we intend to dispose of the facility at the earliest possible time, we cannot determine with certainty a fixed date by which such disposal will occur. In light of this uncertainty, we periodically re-evaluate and adjust the reserve. We consider various factors such as our lease payments through to the end of the lease, operating expenses, the current real estate market in Rhode Island, and estimated subtenant income based on actual and projected occupancy.

The components of our wind-down reserve at December 31 are as follows:

	2008	2007
Accrued wind-down reserve at beginning of period	$ 4,875,000	$ 5,512,000
Less actual expenses recorded against estimated reserve during the period	(1,293,000)	(1,420,000)
Additional expense recorded to revise estimated reserve at period-end	866,000	783,000
Revised reserve at period-end	4,448,000	4,875,000
Add deferred rent at period end	1,065,000	1,268,000
Total accrued wind-down expenses at period-end (current and non current)	$ 5,513,000	$ 6,143,000
Accrued wind-down expenses, current portion	$ 1,420,000	$ 1,374,000
Non current portion	4,093,000	4,769,000
Total accrued wind-down expenses	$ 5,513,000	$ 6,143,000

Note 9. Commitments and Contingencies

Leases

Bonds Payable

We entered into direct financing transactions with the State of Rhode Island and received proceeds from the issuance of industrial revenue bonds totaling $5,000,000 to finance the construction of Rhode Island's pilot manufacturing facility. The related lease agreements are structured such that lease payments fully fund all semiannual interest payments and annual principal payments through maturity in August 2014. Interest rates vary with the respective bonds' maturities, ranging from 8.2% to 9.5%. The outstanding principal and interest owed at December 31, 2008 was approximately $1,345,000. The bonds contain certain restrictive covenants which limit, among other things, the payment of cash dividends and the sale of the related assets.

Operating leases

We entered into a fifteen-year lease agreement for a laboratory facility in Rhode Island in connection with a sale and leaseback arrangement in 1997. The lease term expires June 30, 2013. The lease contains escalating rent payments, which we recognize on a straight-line basis. At December 31, 2008, deferred rent expense was approximately $1,065,000 for this facility and is included as part of the wind-down accrual on the accompanying Consolidated Balance Sheet.

We entered into and amended a lease agreement for an approximately 68,000 square foot facility located at the Stanford Research Park in Palo Alto, California. The facility includes space for animals, laboratories, offices, and a GMP (Good Manufacturing Practices) suite. GMP facilities can be used to manufacture materials for clinical trials. The lease term expires March 31, 2010. Under the term of the agreement we were required to provide a letter of credit for a total of approximately $778,000, which serves as a security deposit for the duration of the lease term. The letter of credit issued by our financial institution is collateralized by a certificate of deposit for the same amount, which is reflected as restricted cash in other assets, non-current on our Consolidated Balance Sheets. The lease contains escalating rent payments, which we recognize on a straight-line basis. At December 31, 2008, deferred rent was approximately $437,000 and is reflected as deferred rent on our Consolidated Balance Sheet. At December 31, 2008, we had a space-sharing agreement covering approximately 10,451 square feet of this facility. We receive base payments plus a proportionate share of the operating expenses based on square footage over the term of the agreement.

The table below summarizes the components of rent expense for the fiscal year ended December 31, as follows:

	2008	2007	2006
Rent expense	$ 3,077,430	$ 3,077,431	$ 2,967,911
Sublease income	(809,065)	(606,398)	(616,600)
Rent expense, net	$ 2,268,365	$ 2,471,033	$ 2,351,311

Future minimum payments under all leases and bonds payable at December 31, 2008 are as follows:

	Bonds Payable	Capital Leases	Operating Leases	Sublease Income
2009	$ 244,572	$ 19,862	$ 3,536,843	$ 652,624
2010	242,559	6,623	1,767,304	97,508
2011	242,321	—	1,171,875	—
2012	240,666	—	1,171,875	—
2013	237,593	—	732,422	—
Thereafter	136,852	—	—	—
Total minimum lease payments	1,344,563	26,485	$ 8,380,319	$ 750,132
Less amounts representing interest	335,396	1,217		
Present value of bonds payable and capital lease payments	1,009,167	25,268		
Less current maturities	149,167	18,739		
Bonds payable, less current maturities	$ 860,000	$ 6,529		

Contingencies

In July 2006, we filed suit against Neuralstem, Inc. in the Federal District Court for the District of Maryland, alleging that Neuralstem's activities violate claims in four of the patents we exclusively licensed from NeuroSpheres. Neuralstem has filed a motion for dismissal or summary judgment in the alternative, citing Title 35, Section 271(e)(1) of the United States Code, which says that it is not an act of patent infringement to make, use or sell a patented invention "solely for uses reasonably related to the development and submission of information" to the FDA. Neuralstem argues that because it does not have any therapeutic products on the market yet, the activities complained of fall within the protection of Section 271(e)(1) — that is, basically, that the suit is premature. This issue will be decided after discovery is complete. Subsequent to filing its motion to dismiss, in December 2006, Neuralstem petitioned the U.S. Patent and Trademark Office (PTO) to reexamine two of the patents in our infringement action against Neuralstem, namely U.S. Patent No. 6,294,346 (claiming the use of human neural stem cells for drug screening) and U.S. Patent No. 7,101,709 (claiming the use of human neural stem cells for screening biological agents). In April 2007, Neuralstem petitioned the PTO to reexamine the remaining two patents in the suit, namely U.S. Patent No. 5,851,832 (claiming methods for proliferating human neural stem cells) and U.S. Patent No. 6,497,872 (claiming methods for transplanting human neural stem cells). These requests were granted by the PTO and, in June 2007, the parties voluntarily agreed to stay the pending litigation while the PTO considers these reexamination requests. In October 2007, Neuralstem petitioned the PTO to reexamine a fifth patent, namely U.S. Patent No. 6,103,530, which claims a culture medium for proliferating mammalian neural stem cells. In April 2008, the PTO upheld the '832 and '872 patents, as amended, and issued Notices of Intent to Issue an *Ex Parte* Reexamination Certificate for both. In August 2008, the PTO upheld the '530 patent, as amended, and issued a Notice of Intent to Issue an *Ex Parte* Reexamination Certificate. The remaining two patents are still under review by the PTO.

In May 2008, we filed a second patent infringement suit against Neuralstem and its two founders, Karl Johe and Richard Garr. In this suit, which we filed in the Federal District Court for the Northern District of California, we allege that Neuralstem's activities infringe claims in two patents we exclusively license from NeuroSpheres, specifically U.S. Patent No. 7,361,505 (claiming composition of matter of human neural stem cells derived from any source material) and U.S. Patent No. 7,115,418 (claiming methods for proliferating human neural stem cells). In addition, we allege various state law causes of action against Neuralstem arising out of its repeated derogatory statements to the public about our patent portfolio. Also in May 2008, Neuralstem filed suit against us and

NeuroSpheres in the Federal District Court for the District of Maryland seeking a declaratory judgment that the ’505 and ’418 patents are either invalid or are not infringed by Neuralstem and that Neuralstem has not violated California state law. In August 2008, the California court transferred our lawsuit against Neuralstem to Maryland for resolution on the merits. We anticipate that the Maryland District Court will consolidate these actions in some manner prior to trial.

Note 10. Warrant Liability

In November 2008, we sold 13,793,104 units to institutional investors at a price of $1.45 per unit, for gross proceeds of $20,000,000. The units, each of which consisted of one share of common stock and a warrant to purchase 0.75 shares of common stock at an exercise price of $2.30 per share, were offered as a registered direct offering under an effective shelf registration statement previously filed with and declared effective by the Securities and Exchange Commission. We received total proceeds, net of offering expenses and placement agency fees, of approximately $18,637,000. We recorded the fair value of the warrants to purchase 10,344,828 shares of our common stock as a liability. The fair value of the warrant liability will be revalued at the end of each reporting period, with the change in fair value of the warrant liability recorded as a gain or loss in our Consolidated Statement of Operations. We used the Black-Scholes option pricing model to estimate the fair value of these warrants. In using this model, we make certain assumptions about risk-free interest rates, dividend yields, volatility and expected term of the warrants. Risk-free interest rates are derived from the yield on U.S. Treasury securities. Dividend yields are based on our historical dividend payments, which have been zero to date. Volatility is derived from the historical volatility of our common stock as traded on Nasdaq. The expected term of the warrants is based on the time to expiration of the warrants from the date of measurement.

The assumptions used for the Black-Scholes option pricing model are as follows:

	To Calculate Fair Value on Date of Issuance	To Calculate Fair Value at December 31, 2008
Expected life (years)	5.5	5.4
Risk-free interest rate	2.42%	1.60%
Expected volatility	83.8%	84.5%
Expected dividend yield	0%	0%

	At December 31, 2008	At November 17, 2008	Change in Fair Value of Warrant Liability at December 31, 2008
Fair value of warrant liability	$8,439,931	$7,502,690	$937,241

The fair value of the warrants will continue to be classified as a liability until such time as the warrants are exercised, expire or an amendment of the warrant agreement renders these warrants to be no longer classified as a liability.

Note 11. Common Stock

We have neither declared nor paid dividends on any share of common stock and do not expect to do so in the foreseeable future.

Sale of common stock

Major transactions involving our common stock for the previous three years include the following:

- In November 2008, we sold 13,793,104 units to institutional investors at a price of $1.45 per unit, for gross proceeds of $20,000,000. The units, each of which consisted of one share of common stock and a warrant to purchase 0.75 shares of common stock at an exercise price of $2.30 per share, were offered as a registered direct offering under an effective shelf registration statement previously filed with and declared effective by the Securities and Exchange Commission. We received total proceeds net of offering expenses and placement agency fees of approximately $18,637,000.
- In April 2007, a warrant issued as part of our June 2004 financing was exercised to purchase an aggregate of 575,658 shares of our common stock at $1.90 per share. We issued 575,658 shares of our common stock and received proceeds of approximately $1,094,000.
- In December 2006, we filed a Prospectus Supplement announcing the entry of a sales agreement with Cantor Fitzgerald & Co (Cantor) under which up to 10,000,000 shares may be sold from time to time under a shelf registration statement. In 2007 and 2008, we sold a total of 2,012,600 shares of our common stock under this agreement at an average price per share of $2.68 for gross proceeds of approximately $5,392,000. Cantor is paid compensation equal to 5.0% of the gross proceeds pursuant to the terms of the agreement.
- In April 2006, we sold 11,750,820 shares of our common stock to institutional investors at a price of $3.05 per share, for gross proceeds of approximately $35,840,000. The shares were offered as a registered direct offering under an effective shelf registration statement previously filed with and declared effective by the Securities and Exchange Commission. We received total proceeds, net of offering expenses and placement agency fees, of approximately $33,422,000. No warrants were issued as part of this financing transaction.
- In March 2006, a warrant issued as part of our June 2004 financing was exercised to purchase an aggregate of 526,400 shares of our common stock at $1.89 per share. We issued 526,400 shares of our common stock and received proceeds of approximately $995,000.

Stock Issued For Technology Licenses

Under license agreements with NeuroSpheres, Ltd., we obtained an exclusive patent license covering all uses of certain neural stem cell technology. We made up-front payments to NeuroSpheres of 65,000 shares of our common stock and $50,000, and will make additional cash payments as stated milestones are achieved. Effective in 2004, we began making annual $50,000 payments, creditable against certain royalties.

Pursuant to the terms of a license agreement with the California Institute of Technology (Cal Tech) and our acquisition of its wholly owned subsidiary, StemCells California, we issued 14,513 shares of common stock to Cal Tech. We issued an additional 12,800 shares of common stock to Cal Tech with a market value of approximately $40,000 in May 2000, upon execution of an amendment adding four families of patent applications to the license agreement. In August 2002, we acquired an additional license from Cal Tech for a different technology, pursuant to which we issued 27,535 shares of our common stock with a market value of approximately $35,000. We also issued (with a market value of approximately $10,000 each year), 6,924 shares in 2008, 3,865 shares in 2007, 3,848 shares in 2006, and 9,535 shares (market value of approximately $15,000) in 2004 of our common stock to Cal Tech for the issuance and annual license fees of two patents covered under this additional license.

Common Stock Reserved

We reserved the following shares of common stock for the exercise of options, warrants and other contingent issuances of common stock, as of December 31, 2008:

Shares reserved for share based compensations	16,542,533
Shares reserved for warrants related to financing transactions	11,599,828
Shares reserved for license agreements	85,363
Shares reserved for possible future issuances under an effective shelf registration	62,678,858
Total	90,906,582

Note 12. Grant Revenue

In October 2008, we were awarded a $305,000 grant from the National Institute of Diabetes and Digestive and Kidney Diseases to research and develop a potential cell-based therapeutic for liver disease arising from infection by the hepatitis C virus. The award is a Phase I grant under the Small Business Innovation Research (SBIR) Program of the National Institutes of Health. Should the objectives of the research funded by this grant be met, we anticipate applying for Phase II and additional funding under the SBIR Program. We recognized approximately $26,000 as grant revenue in 2008 related to this grant.

In September 2004, we were awarded a Small Business Technology Transfer (STTR) grant for approximately $464,000 for studies in Alzheimer's disease conducted over an 18 month period. The grant supported joint work with Dr. George A. Carlson of the McLaughlin Research Institute (MRI) in Great Falls, Montana. We received and recognized approximately $26,000 in 2006, $186,000 in 2005, and $38,000 in 2004 as grant revenue, the remainder was reimbursed to MRI.

Note 13. 401(k) Plan

Our 401(k) Plan covers substantially all of our employees. Participants in the plan are permitted to contribute a fixed percentage of their total annual cash compensation to the plan (subject to the maximum employee contribution defined by law). We match 50% of employee contributions, up to a maximum of 6% of each employee's eligible compensation in the form of shares of common stock. We recorded an expense of $181,000 in 2008, $179,000 in 2007, and $157,000 in 2006 for our contributions under our 401(k) Plan.

Note 14. Income Taxes

In July 2006, the FASB issued FIN 48 which clarifies the accounting for uncertainty in income taxes by prescribing the recognition threshold a tax position is required to meet before being recognized in the financial statements. We adopted FIN 48 effective January 1, 2007. The adoption of FIN 48 did not impact our consolidated financial condition, results of operations or cash flows. At the adoption date of January 1, 2007 and as of December 31, 2008 and 2007, we have not recorded any unrecognized tax benefits. Deferred income taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting

purposes and the amounts used for income tax purposes. Significant components of our deferred tax assets and liabilities at December 31 are as follows:

	2008	2007
Deferred tax assets:		
Capitalized research and development costs	$ 38,670,000	$ 31,779,000
Net operating losses	42,247,000	42,716,000
Research and development credits	6,671,000	6,103,000
Accrued wind down cost	1,780,000	1,950,000
Stock-based compensation	465,000	245,000
Impaired asset	833,000	—
Other	458,000	329,000
	91,124,000	83,122,000
Valuation allowance	(91,124,000)	(83,122,000)
Net deferred tax assets	$ —	$ —

Realization of deferred tax assets is dependent upon future earnings, if any, the timing and amount of which are uncertain. Accordingly, the net deferred tax assets have been fully offset by a valuation allowance. The valuation allowance increased by approximately $8,002,000 in 2008, $8,632,000 in 2007, and $7,105,000 in 2006.

As of December 31, 2008, we had the following:

- Net operating loss carry forwards for federal income tax purposes of approximately $119,500,000 which expire in the years 2009 through 2028.
- Federal research and development tax credits of approximately $4,911,000 which expire in the years 2009 through 2028.
- Net operating loss carry forwards for state income tax purposes of approximately $26,964,000 which expire in the years 2009 through 2029.
- State research and development tax credits of approximately $2,666,000 ($1,760,000 net of federal tax effect) which do not expire.

The effective tax rate as a percentage of income before income taxes differs from the statutory federal income tax rate (when applied to income before income taxes) for the years ended December 31 as follows:

	2008	2007	2006
Statutory federal income tax (benefit) rate	(34)%	(34)%	(34)%
State income tax (benefit) rate	(6)	(6)	(6)
Increase resulting from:			
Expenses not deductible for taxes	5.8	4.9	5.3
Increase in valuation allowance	34.2	35.1	34.7
Effective tax (benefit) rate	0%	0%	0%

Our policy is to recognize interest and penalties related to income tax matters in income tax expense. Because we have no tax liabilities, no tax-related interest and penalties have been expensed in our consolidated statements of operations during 2008 or accrued as a liability in our consolidated balance sheets at December 31, 2008. We do not anticipate any significant changes to total unrecognized tax benefits as a result of settlement of audits or the expiration of statute of limitations within the next twelve months.

We file U.S. federal income tax returns, as well as tax returns with the State of California and the State of Rhode Island. Due to the carry forward of unutilized net operating losses and research and development credits, our federal tax returns from 1994 forward remain subject to examination by the Internal Revenue Service, and our State of California tax returns from 2000 forward and our State of Rhode Island tax returns from 2003 forward remain subject to examination by the respective state tax authorities.

Note 15. Subsequent Events

At December 31, 2008, we owned 4,821,924 shares of ReNeuron (marketable equity securities) trading on the Alternative Investment Market (a sub-market of the London Stock Exchange) with a carrying and fair market value of $187,000. In the first quarter of 2009, we sold in aggregate, approximately 2,900,000 shares of ReNeuron and received proceeds of approximately $512,000 for a realized gain of approximately $400,000.

In February 2009, a warrant issued as part of a June 2004 financing arrangement, was exercised to purchase an aggregate of 164,474 shares of our common stock at $1.90 per share. We issued 164,474 shares of our common stock and received proceeds of approximately $312,500.

In the first quarter of 2009, we sold in aggregate, 3,325,000 shares of our common stock pursuant to the sales agreement we entered into with Cantor, at an average price per share of $2.10 for gross proceeds of approximately $6,999,000. Cantor is paid compensation equal to 5.0% of the gross proceeds pursuant to the terms of the agreement.

In March 2009, we entered into an asset purchase agreement with Stem Cell Sciences Plc (“SCS”) to acquire substantially all of the operating assets and liabilities of SCS (the “Acquisition”). The Acquisition is subject to customary closing conditions, including the approval of the stockholders of SCS, and is expected to close shortly after the SCS extraordinary general meeting scheduled for March 27, 2009. As consideration for the operating assets and liabilities to be acquired, we will issue to SCS, except as provided below, 2,650,000 shares of our common stock, plus waive certain commitments of SCS to repay approximately $715,000 in cash made available by us to SCS for working capital purposes. The actual number of shares delivered to SCS at the closing will depend on the SCS operating subsidiaries having a specified minimum amount of working capital. In connection with the Acquisition, we also entered into a loan facility agreement with SCS pursuant to which we agreed to lend up to $415,000 to SCS for working capital prior to the closing of the Acquisition. Upon closing of the Acquisition, we will waive SCS’ obligations to repay any amounts borrowed by SCS under this loan facility agreement as well as £200,000 (approximately $298,000) previously borrowed by SCS from us in December 2008. The principal amounts owed on both of these loans accrue interest at 8% per annum and such principal amounts and accrued interest will become due and payable on June 23, 2009 if the Acquisition does not occur beforehand.

*****

StemCells, Inc.

Notes to Consolidated Financial Statements — (Continued)

QUARTERLY FINANCIAL DATA (unaudited)

	2008 Quarter Ended			
	December 31	September 30	June 30	March 31
	(In thousands, except per share amounts)			
Total revenue	$ 172	$ 12	$ 30	$ 17
Operating expenses(1)	7,270	5,857	6,929	6,914
Other income (expense), net(2)	(2,985)	101	183	352
Net loss	(10,082)	(5,744)	(6,716)	(6,545)
Basic and diluted net loss per share	$ (0.11)	$ (0.07)	$ (0.08)	$ (0.09)

	2007 Quarter Ended			
	December 31	September 30	June 30	March 31
	(In thousands, except per share amounts)			
Total revenue	$ 30	$ 13	$ 8	$ 6
Operating expenses(1)	8,353	7,749	6,041	6,505
Other income, net	497	582	609	1,880
Net loss	(7,826)	(7,154)	(5,424)	(4,619)
Basic and diluted net loss per share	$ (0.10)	$ (0.09)	$ (0.07)	$ (0.06)

(1) Includes adjustment of wind-down accrual — see Note 8.

(2) Other expense, net, for the quarter ended December 31, 2008, includes a loss of $937,241 relating to the change in fair value of our warrant liability — see Note 10, and a $2,082,894 other than temporary impairment of marketable securities — see Note 2.

Item 9. ***CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE***

None.

Item 9A. ***CONTROLS AND PROCEDURES***

Evaluation of Disclosure Controls and Procedures

The Company's management, with the participation of its chief executive officer and chief financial officer, evaluated the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this annual report. Based on this evaluation, the Company's principal executive officer and principal financial officer concluded that these disclosure controls and procedures are effective to ensure that the information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the requisite time periods, and to provide reasonable assurance that information required to be disclosed by the Company in such reports is accumulated and communicated to the Company's management, including its chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Controls

There have been no changes in the Company's internal control over financial reporting during the quarter ended December 31, 2008, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's management, including its principal executive officer and principal financial officer, assessed the effectiveness of its internal control over financial reporting based on the framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The evaluation of the design and operating effectiveness of internal control over financial reporting include among others those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

During the fiscal year 2008, the Company periodically tested the design and operating effectiveness of its internal control over financial reporting. Among other matters, the Company sought in its evaluation to determine whether there were any "significant deficiencies" or "material weakness" in its internal control over financial reporting, or whether it had identified any acts of fraud involving management or other employees.

Based on the above evaluation, the Company's chief executive officer and chief financial officer have concluded that as of December 31, 2008, the Company's internal control over financial reporting were effective. Nonetheless, it is important to acknowledge that due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company's internal control over financial reporting as of December 31, 2008 has been audited by Grant Thornton LLP, an independent registered public accounting firm, as stated in their report below.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Board of Directors and Stockholders
StemCells, Inc.

We have audited StemCells, Inc. (a Delaware corporation) and subsidiary's (collectively, the "Company") internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting 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 effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, StemCells, Inc. and subsidiary maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008 based on criteria established in *Internal Control — Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of StemCells, Inc. and subsidiary as of December 31, 2008 and 2007, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2008 and our report dated March 11, 2009 expressed an unqualified opinion thereon.

/s/ GRANT THORNTON LLP

San Francisco, California
March 11, 2009

Item 9B. ***Other Information***

None

PART III

Item 10. ***DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT***

Executive Officers

Below are the name, age and principal occupations for the last five years of each executive officer of StemCells, Inc., as of February 28, 2009. All such persons have been elected to serve until their successors are elected and qualified or until their earlier resignation or removal.

Martin M. McGlynn, President and Chief Executive Officer	62	Martin M. McGlynn joined the company on January 2001, when he was appointed President and Chief Executive Officer of the company and of its wholly-owned subsidiary, StemCells California, Inc. He was elected to the Board of Directors in February 2001.
Ann Tsukamoto, Ph.D. Executive Vice President, Research and Development	56	Ann Tsukamoto, Ph.D., joined the company in November 1997 as Senior Director of Scientific Operations; was appointed Vice President, Scientific Operations in June 1998; Vice President, Research and Development in February 2002; and Chief Operating Officer, with responsibility for the company's research and development efforts, in November 2006. In October 2008, Dr. Tsukamoto was appointed to the newly created position of Executive Vice President, Research and Development with responsibility for the Company's scientific and clinical development programs.
Rodney K.B. Young, Chief Financial Officer and Vice President, Finance and Administration	46	Rodney K.B. Young joined the company in September 2005 as Chief Financial Officer and Vice President, Finance. In November 2006 he became CFO and Vice President, Finance and Administration. He is responsible for functions that include Finance, Information Technology and Investor Relations. From 2003 to 2005, Mr. Young was Chief Financial Officer and a director of Extropy Pharmaceuticals, Inc., a private biopharmaceutical company focused on developing drugs for pediatric indications.
Stewart Craig, Ph.D. Senior Vice President, Development and Operations	47	Stewart Craig, Ph.D., joined the company in September 2008 with responsibilities for Development, Manufacturing, Regulatory, Quality Systems and Facilities. From 2005 to 2008, Dr. Craig was Chief Technology Officer and Vice President of Progenitor Cell Therapy, a contract services provider for research, development, manufacture and commercialization of cell-based therapies, prior to which he has held executive positions at Xcyte Therapies, Osiris Therapeutics and SyStemix.
Kenneth Stratton, JD General Counsel	40	Kenneth Stratton, JD, joined the company in February 2007 as General Counsel, with responsibility for corporate compliance and legal affairs. In March 2008, he assumed responsibilities for the Human Resources function. Prior to StemCells, Mr. Stratton served as Deputy General Counsel for Threshold Pharmaceuticals and as Senior Legal Counsel for Medtronic's Vascular business unit.

Directors

Below are the name, age and principal occupations for the last five years of each Director of StemCells, Inc., as of February 29, 2008. Directors are elected to staggered three year terms.

Eric H. Bjerkholt	49	Eric H. Bjerkholt was elected to the Board of Directors in March 2004. Mr. Bjerkholt joined Sunesis Pharmaceuticals, Inc., in 2004 as Senior Vice President and Chief Financial Officer. Since February 2007, he has served as Senior Vice President, Corporate Development and Finance, and Chief Financial Officer. From 2002 to 2004, Mr. Bjerkholt was Senior Vice President and Chief Financial Officer at IntraBiotics Pharmaceuticals, Inc.
Ricardo B. Levy, Ph.D.	64	Ricardo B. Levy, Ph.D. was elected to the Board of Directors in September 2001. He currently serves on several boards of directors.
Martin M. McGlynn	62	Martin M. McGlynn was elected to the Board of Directors in February 2001. He is President and Chief Executive Officer of the Company, a position he has held since January 2001.
Roger Perlmutter, M.D., Ph.D.	56	Roger M. Perlmutter, M.D., Ph.D., was elected to the Board of Directors in December 2000. He is Executive Vice President, Research and Development, of Amgen, Inc., a position he has held since January 2001.
John J. Schwartz, Ph.D.	74	John J. Schwartz, Ph.D., was elected to the Board of Directors in December 1998 and was elected Chairman of the Board at the same time. He is currently President of Quantum Strategies Management Company.
Irving Weissman, M.D.	69	Irving L. Weissman, M.D., was elected to the Board of Directors in September 1997. He is the Virginia and Daniel K. Ludwig Professor of Cancer Research, Professor of Pathology and Professor of Developmental Biology at Stanford.

Certain other information required by this Item regarding our officers, Directors, and corporate governance is incorporated herein by reference to the information appearing under the headings “Information About Our Directors” and “Information About Ownership of Our Common Stock” in our definitive proxy statement to be filed with the Securities and Exchange Commission within 120 days of December 31, 2008 (the “2009 Proxy Statement”).

Item 11. ***EXECUTIVE COMPENSATION***

The information required by this Item is incorporated by reference from Item 5 of this Annual Report on Form 10-K and our Proxy Statement for the 2009 Annual Meeting of Stockholders.

Item 12. ***SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS***

The information required by this Item is incorporated by reference from Item 5 of this Annual Report on Form 10-K and from our Proxy Statement for the 2009 Annual Meeting of Stockholders.

Item 13. ***CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS***

The information required by this Item is incorporated by reference from our Proxy Statement for the 2009 Annual Meeting of Stockholders.

Item 14. ***PRINCIPAL ACCOUNTING FEES AND SERVICES***

The information required by this Item is incorporated by reference from our Proxy Statement for the 2009 Annual Meeting of Stockholders.

PART IV

Item 15. ***EXHIBITS AND FINANCIAL STATEMENT SCHEDULES***

(a) The following documents are included as part of this Annual Report on Form 10-K.

(1) Financial Statements:

The financial statements filed as part of this Report are listed and indexed under Item 8 above.

(2) Financial Statement Schedules:

Schedules are not included herein because they are not applicable or the required information appears in the Financial Statements or Notes thereto.

(3) Exhibits.

The documents set forth below are filed herewith or incorporated by reference to the location indicated.

Exhibit No.	Title or Description
3.1-	Restated Certificate of Incorporation of the Registrant
3.2--	Amended and Restated By-Laws of the Registrant
4.1^^	Specimen common stock Certificate
4.2{*}	Warrant to Purchase common stock — Riverview Group, LLC
4.3XXXX	Warrant to Purchase common stock — Cantor Fitzgerald & Co.
4.4&2	Warrant to Purchase common stock — Riverview Group, LLC
4.5&4	Form of Warrant Certificate issued to a certain purchasers of the Registrant's common stock in November 2008
10.1	Form of at-will Employment Agreement between the Registrant and most of its employees
10.2*	Form of Agreement for Consulting Services between the Registrant and members of its Scientific Advisory Board
10.3	Form of Nondisclosure Agreement between the Registrant and its Contractors
10.4*	1992 Equity Incentive Plan
10.5*	1992 Stock Option Plan for Non-Employee Directors
10.6+	Research Agreement, dated as of March 16, 1994, between NeuroSpheres, Ltd. and Registrant
10.7+	Lease Agreement between the Registrant and Rhode Island Industrial Facilities Corporation, dated as of August 1, 1992
10.8+	First Amendment to Lease Agreement between Registrant and The Rhode Island Industrial Facilities Corporation dated as of September 15, 1994
10.9#	Lease Agreement, dated as of November 21, 1997, by and between Hub RI Properties Trust, as Landlord, and CytoTherapeutics, Inc., as Tenant
10.10!	Consulting Agreement, dated as of September 25, 1997, between Dr. Irving Weissman and the Registrant
10.11!!!	StemCells, Inc. 1996 Stock Option Plan
10.12!!!	1997 StemCells Research Stock Option Plan (the "1997 Plan")
10.13!!!	Form of Performance-Based Incentive Option Agreement issued under the 1997 Plan
10.14XX	License Agreement, dated as of October 30, 2000, between the Registrant and NeuroSpheres Ltd.
10.15XX	Letter Agreement, dated January 2, 2001, between the Registrant and Martin McGlynn

Exhibit No.	Title or Description
10.16XX	Lease, dated February 1, 2001, between the Board of Trustees of Stanford University and the Registrant
10.17$$	2001 Equity Incentive Plan
10.18^^^	Form of Securities Purchase Agreement, dated as of June 16, 2004, between the Registrant and certain Purchasers parties thereto
10.19^^^	Form of Warrant
10.20^^^^	Amended and Restated 2004 Equity Incentive Plan of the Registrant
10.21§	License Agreement, dated as of July 1, 2005, between the Registrant and ReNeuron Limited
10.22§§	Letter Agreement, effective as of September 6, 2005, between the Registrant and Rodney K.B. Young
10.23XX	Side Letter, dated March 17, 2001, between the Company and Oleh S. Hnatiuk regarding NeuroSpheres License Agreement, dated October 30, 2000
10.24@	License Agreement, dated April 1, 1997, by and among Registrant, NeuroSpheres Ltd. and NeuroSpheres Holdings Ltd.
10.25§§§	Indemnification Agreement, dated July 9, 2008, by and between registrant and NeuroSpheres Holdings, LTD.
10.26	Facility Agreement, dated December 23, 2008, by and among registrant and Stem Cell Sciences Plc
10.27	Second Facility Agreement, dated March 1, 2009, by and among registrant, Stem Cell Sciences Plc and Stem Cell Sciences Holdings Limited
10.28	Asset Purchase Agreement, dated March 1, 2009, by and between registrant and Stem Cell Sciences Plc
14.1	Code of Ethics
21X	Subsidiaries of the Registrant
23.1	Consent of Grant Thornton, LLP , Independent Registered Public Accounting Firm
31.1	Certification Pursuant to Securities Exchange Act Rule 13(a)-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Martin McGlynn, Chief Executive Officer)
31.2	Certification Pursuant to Securities Exchange Act Rule 13(a)-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Rodney K.B. Young, Chief Financial Officer)
32.1	Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Martin McGlynn, Chief Executive Officer)
32.2	Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Rodney K.B. Young, Chief Financial Officer)

! Previously filed with the Commission as Exhibits to, and incorporated herein by reference to, the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1997 and filed on November 14, 1997.

!! Previously filed with the Commission as an Exhibit to and incorporated by reference to, the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1996.

!!! Previously filed with the Commission as Exhibits to, and incorporated herein by reference to, the Registrant's Registration Statement on Form S-8, File No. 333-37313.

$ Previously filed with the Commission as an Exhibit to, and incorporated herein by reference to, the Registrant's annual report on Form 10-K for the fiscal year ended December 31, 1998 and filed on March 31, 1999.

$$ Previously filed with the Commission as an Exhibit to, and incorporated herein by reference to, the Registrant's definitive proxy statement filed May 1, 2001.

% Previously filed with the Commission as an Exhibit to, and incorporated herein by reference to, the Registrant's current report on Form 8-K on December 10, 2003.

%% Previously filed with the Commission as an Exhibit to, and incorporated herein by reference to, the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2003

&1 Previously filed with the Commission as an Exhibit to, and incorporated herein by reference to, the Registrant's current report on Form 8-K on April 15, 2003.

&2 Previously filed with the Commission as an Exhibit to, and incorporated herein by reference to, the Registrant's current report on Form 8-K on May 13, 2003.

&3 Previously filed with the Commission as an Exhibit to, and incorporated herein by reference to, the Registrant's current report on Form 8-K on May 15, 2003.

&4 Previously filed with the Commission as an Exhibit to, and incorporated herein by reference to, the Registrant's current report on Form 8-K on November 12, 2008.

* Previously filed with the Commission as Exhibits to, and incorporated herein by reference to, Registration Statement on Form S-1, File No. 33-45739.

** Confidential treatment requested as to certain portions. The term "confidential treatment" and the mark "**" as used throughout the indicated Exhibits mean that material has been omitted and separately filed with the Commission.

ˆ Previously filed with the Commission as an Exhibit to, and incorporated herein by reference to, the Registrant's current report on Form 8-K on December 29, 2006.

ˆˆ Previously filed with the Commission as an Exhibit to, and incorporated by reference to, the Registrant's Registration Statement on Form S-3, File No. 333-151891.

ˆˆˆ Previously filed with the Commission as an Exhibit to, and incorporated herein by reference to, the Registrant's current report on Form 8-K filed on June 17, 2004.

ˆˆˆˆ Previously filed with the Commission as an Exhibit to, and incorporated herein by reference to, the Registrants Registration Statement on Form S-8, File No. 333-118263.

{*} Previously filed with the Commission as an Exhibit to, and incorporated herein by reference to, the Registrant's current report on Form 8-K filed on December 7, 2001.

+ Previously filed with the Commission as Exhibits to, and incorporated herein by reference to, the Registrant's Registration Statement on Form S-1, File No. 33-85494.

++ Previously filed with the Commission as Exhibits to, and incorporated herein by reference to, the Registrant's Registration Statement on Form S-1, File No. 33-91228.

- Previously filed with the Commission as an Exhibit to, and incorporated herein by reference to, the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2006 and filed on March 15, 2007.

-

- Previously filed with the Commission as an Exhibit to, and incorporated herein by reference to, the Registrant's current report on Form 8-K on May 7, 2007.

§ Previously filed with the Commission as an Exhibit to and incorporated herein by reference to, the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005.

§§ Previously filed with the Commission as an Exhibit to and incorporated herein by reference to, the Registrant's current report on Form 8-K filed on September 7, 2005.

§§§ Previously filed with the Commission as an Exhibit to and incorporated herein by reference to, the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2008

X Previously filed with the Commission as an Exhibit to, and incorporated herein by reference to, the Registrant's Registration Statement on Form S-1, File No. 333-45496.

XX Previously filed with the Commission as an Exhibit to, and incorporated herein by reference to, the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2000 and filed on April 2, 2001.

XXX Previously filed with the Commission as an Exhibit to, and incorporated herein by reference to, the Registrant's Registration Statement filed on Form S-1 as amended to Form S-3, File No. 333-61726.

XXXX Previously filed with the Commission as an Exhibit to, and incorporated herein by reference to, the Registrant's Registration Statement filed on Form S-3, File No. 333-75806.

@ Previously filed with the Commission as an Exhibit to, and incorporated herein by reference to, the Registrant's Annual Report on Form 10-K/A for the fiscal year ended December 31, 2006 and filed on April 1, 1997.

Previously filed with the Commission as an Exhibit to, and incorporated herein by reference to, the Registrant's annual report on Form 10-K for the fiscal year ended December 31, 1997 and filed on March 30, 1998.

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 to be signed on its behalf by the undersigned, thereunto duly authorized.

STEMCELLS, INC.

By: /s/ MARTIN MCGLYNN
Martin McGlynn
PRESIDENT AND CHIEF EXECUTIVE OFFICER

Dated: March 13, 2009

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Capacity	Date
/s/ MARTIN MCGLYNN Martin McGlynn	President and Chief Executive Officer and Director (principal executive officer)	March 13, 2009
/s/ RODNEY K.B. YOUNG Rodney K.B. Young	Chief Financial Officer (principal financial officer)	March 13, 2009
/s/ GEORGE KOSHY George Koshy	Chief Accounting Officer (principal accounting officer)	March 13, 2009
/s/ ERIC BJERKHOLT Eric Bjerkholt	Director	March 13, 2009
/s/ RICARDO B. LEVY, PH.D Ricardo B. Levy, Ph.D.	Director	March 13, 2009
/s/ ROGER M. PERLMUTTER, M.D. Roger M. Perlmutter, M.D.	Director	March 13, 2009
/s/ JOHN J. SCHWARTZ, PH. D. John J. Schwartz, Ph.D.	Director, Chairman of the Board	March 13, 2009
/s/ IRVING L. WEISSMAN, M.D. Irving L. Weissman, M.D.	Director	March 13, 2009

Table of Contents

Exhibit Index

Exhibit No.	Title or Description
3.1-	Restated Certificate of Incorporation of the Registrant
3.2--	Amended and Restated By-Laws of the Registrant
4.1^^	Specimen common stock Certificate
4.2{*}	Warrant to Purchase common stock — Riverview Group, LLC
4.3XXXX	Warrant to Purchase common stock — Cantor Fitzgerald & Co.
4.4&2	Warrant to Purchase common stock — Riverview Group, LLC
4.5&4	Form of Warrant Certificate issued to a certain purchasers of the Registrant's common stock in November 2008
10.1	Form of at-will Employment Agreement between the Registrant and most of its employees
10.2*	Form of Agreement for Consulting Services between the Registrant and members of its Scientific Advisory Board
10.3	Form of Nondisclosure Agreement between the Registrant and its Contractors
10.4*	1992 Equity Incentive Plan
10.5*	1992 Stock Option Plan for Non-Employee Directors
10.6+	Research Agreement, dated as of March 16, 1994, between NeuroSpheres, Ltd. and Registrant
10.7+	Lease Agreement between the Registrant and Rhode Island Industrial Facilities Corporation, dated as of August 1, 1992
10.8+	First Amendment to Lease Agreement between Registrant and The Rhode Island Industrial Facilities Corporation dated as of September 15, 1994
10.9#	Lease Agreement, dated as of November 21, 1997, by and between Hub RI Properties Trust, as Landlord, and CytoTherapeutics, Inc., as Tenant
10.10!	Consulting Agreement, dated as of September 25, 1997, between Dr. Irving Weissman and the Registrant
10.11!!!	StemCells, Inc. 1996 Stock Option Plan
10.12!!!	1997 StemCells Research Stock Option Plan (the "1997 Plan")
10.13!!!	Form of Performance-Based Incentive Option Agreement issued under the 1997 Plan
10.14XX	License Agreement, dated as of October 30, 2000, between the Registrant and NeuroSpheres Ltd.
10.15XX	Letter Agreement, dated January 2, 2001, between the Registrant and Martin McGlynn
10.16XX	Lease, dated February 1, 2001, between the Board of Trustees of Stanford University and the Registrant
10.17$$	2001 Equity Incentive Plan
10.18^^^	Form of Securities Purchase Agreement, dated as of June 16, 2004, between the Registrant and certain Purchasers parties thereto
10.19^^^	Form of Warrant
10.20^^^^	Amended and Restated 2004 Equity Incentive Plan of the Registrant
10.21§	License Agreement, dated as of July 1, 2005, between the Registrant and ReNeuron Limited
10.22§§	Letter Agreement, effective as of September 6, 2005, between the Registrant and Rodney K.B. Young
10.23XX	Side Letter, dated March 17, 2001, between the Company and Oleh S. Hnatiuk regarding NeuroSpheres License Agreement, dated October 30, 2000
10.24@	License Agreement, dated April 1, 1997, by and among Registrant, NeuroSpheres Ltd. and NeuroSpheres Holdings Ltd.
10.25§§§	Indemnification Agreement, dated July 9, 2008, by and between registrant and NeuroSpheres Holdings, LTD.
10.26	Facility Agreement, dated December 23, 2008, by and among registrant and Stem Cell Sciences Plc

Exhibit No.	Title or Description
10.27	Second Facility Agreement, dated March 1, 2009, by and among registrant, Stem Cell Sciences Plc and Stem Cell Sciences Holdings Limited
10.28	Asset Purchase Agreement, dated March 1, 2009, by and between registrant and Stem Cell Sciences Plc
14.1	Code of Ethics
21X	Subsidiaries of the Registrant
23.1	Consent of Grant Thornton, LLP , Independent Registered Public Accounting Firm
31.1	Certification Pursuant to Securities Exchange Act Rule 13(a)-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Martin McGlynn, Chief Executive Officer)
31.2	Certification Pursuant to Securities Exchange Act Rule 13(a)-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Rodney K.B. Young, Chief Financial Officer)
32.1	Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Martin McGlynn, Chief Executive Officer)
32.2	Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Rodney K.B. Young, Chief Financial Officer)

! Previously filed with the Commission as Exhibits to, and incorporated herein by reference to, the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1997 and filed on November 14, 1997.

!! Previously filed with the Commission as an Exhibit to and incorporated by reference to, the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1996.

!!! Previously filed with the Commission as Exhibits to, and incorporated herein by reference to, the Registrant's Registration Statement on Form S-8, File No. 333-37313.

$ Previously filed with the Commission as an Exhibit to, and incorporated herein by reference to, the Registrant's annual report on Form 10-K for the fiscal year ended December 31, 1998 and filed on March 31, 1999.

$$ Previously filed with the Commission as an Exhibit to, and incorporated herein by reference to, the Registrant's definitive proxy statement filed May 1, 2001.

% Previously filed with the Commission as an Exhibit to, and incorporated herein by reference to, the Registrant's current report on Form 8-K on December 10, 2003.

%% Previously filed with the Commission as an Exhibit to, and incorporated herein by reference to, the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2003

&1 Previously filed with the Commission as an Exhibit to, and incorporated herein by reference to, the Registrant's current report on Form 8-K on April 15, 2003.

&2 Previously filed with the Commission as an Exhibit to, and incorporated herein by reference to, the Registrant's current report on Form 8-K on May 13, 2003.

&3 Previously filed with the Commission as an Exhibit to, and incorporated herein by reference to, the Registrant's current report on Form 8-K on May 15, 2003.

&4 Previously filed with the Commission as an Exhibit to, and incorporated herein by reference to, the Registrant's current report on Form 8-K on November 12, 2008.

* Previously filed with the Commission as Exhibits to, and incorporated herein by reference to, Registration Statement on Form S-1, File No. 33-45739.

** Confidential treatment requested as to certain portions. The term "confidential treatment" and the mark "**" as used throughout the indicated Exhibits mean that material has been omitted and separately filed with the Commission.

ˆ Previously filed with the Commission as an Exhibit to, and incorporated herein by reference to, the Registrant's current report on Form 8-K on December 29, 2006.

ˆˆ Previously filed with the Commission as an Exhibit to, and incorporated by reference to, the Registrant's Registration Statement on Form S-3, File No. 333-151891.

ˆˆˆ Previously filed with the Commission as an Exhibit to, and incorporated herein by reference to, the Registrant's current report on Form 8-K filed on June 17, 2004.

ˆˆˆˆ Previously filed with the Commission as an Exhibit to, and incorporated herein by reference to, the Registrants Registration Statement on Form S-8, File No. 333-118263.

{*} Previously filed with the Commission as an Exhibit to, and incorporated herein by reference to, the Registrant's current report on Form 8-K filed on December 7, 2001.

+ Previously filed with the Commission as Exhibits to, and incorporated herein by reference to, the Registrant's Registration Statement on Form S-1, File No. 33-85494.

++ Previously filed with the Commission as Exhibits to, and incorporated herein by reference to, the Registrant's Registration Statement on Form S-1, File No. 33-91228.

- Previously filed with the Commission as an Exhibit to, and incorporated herein by reference to, the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2006 and filed on March 15, 2007.

-

-- Previously filed with the Commission as an Exhibit to, and incorporated herein by reference to, the Registrant's current report on Form 8-K on May 7, 2007.

§ Previously filed with the Commission as an Exhibit to and incorporated herein by reference to, the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005.

§§ Previously filed with the Commission as an Exhibit to and incorporated herein by reference to, the Registrant's current report on Form 8-K filed on September 7, 2005.

§§§ Previously filed with the Commission as an Exhibit to and incorporated herein by reference to, the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2008.

X Previously filed with the Commission as an Exhibit to, and incorporated herein by reference to, the Registrant's Registration Statement on Form S-1, File No. 333-45496.

XX Previously filed with the Commission as an Exhibit to, and incorporated herein by reference to, the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2000 and filed on April 2, 2001.

XXX Previously filed with the Commission as an Exhibit to, and incorporated herein by reference to, the Registrant's Registration Statement filed on Form S-1 as amended to Form S-3, File No. 333-61726.

XXXX Previously filed with the Commission as an Exhibit to, and incorporated herein by reference to, the Registrant's Registration Statement filed on Form S-3, File No. 333-75806.

@ Previously filed with the Commission as an Exhibit to, and incorporated herein by reference to, the Registrant's Annual Report on Form 10-K/A for the fiscal year ended December 31, 2006 and filed on April 1, 1997.

Previously filed with the Commission as an Exhibit to, and incorporated herein by reference to, the Registrant's annual report on Form 10-K for the fiscal year ended December 31, 1997 and filed on March 30, 1998.

Name of Employee: _____

EMPLOYMENT AGREEMENT

In consideration of my employment with StemCells, Inc., (the "Company"), and the compensation now and hereafter paid to me by the Company, I agree to the following:

1. **At-will employment.** I understand and acknowledge that my employment with the Company is for an unspecified duration and constitutes "at-will" employment. I also acknowledge that this means the employment relationship may be terminated at any time, with or without cause, at my option or the Company's option, with or without notice. I further agree that the terms of my employment may be modified at any time, with or without cause, at the discretion of the Company. In the event of the termination of my employment, I understand that I will not be entitled to any payment, damages, compensation, or benefits except as provided in the StemCells Employment Handbook. Any modification of this paragraph must conform to the requirements of Paragraph 9.b. below and must express a clear and unambiguous intent to alter the at-will nature of my employment relationship with the Company.

2. **Confidential Information.**

a. **Company Information.** At all times during the term of my employment and thereafter, I agree to hold in strictest confidence, and not to use, except for the benefit of the Company, nor to disclose to any person, firm or corporation, without written authorization of the Company Board of Directors, any *Confidential Information* of the Company.

I understand *Confidential Information* to mean any Company proprietary information, technical data, trade secrets or know-how, including, but not limited to, research, development, product plans, products, services, clients and client lists (including, but not limited to, clients of the Company on whom I called, or with whom I became acquainted during my term of employment), patients, suppliers, markets, software, developments, inventions, processes,

formulas, technology, designs, drawings, engineering, hardware configuration information, marketing, costs, pricing, finances or other business information, disclosed to me by the Company either directly or indirectly in writing, orally, or by drawings, or inspection of parts or equipment.

I further understand that *Confidential Information* does not include any of the foregoing items that have become publicly known and made generally available through no wrongful act of mine.

b. **Former employer information.** I agree that I will not, during my employment with the Company, improperly use or disclose any proprietary information or trade secrets of any former or concurrent employer, or other person or entity with whom I have an agreement or duty to keep in confidence information acquired by me in confidence, if any; and that I will not bring onto Company premises any unpublished document or proprietary information belonging to any such employer, person or entity, unless consented to in writing by such employer, person or entity.

c. **Third-party information.** I recognize that the Company has received, and in future will receive, from third parties, their confidential or proprietary information subject to a duty on the Company's part to maintain the confidentiality of such information and to use it only for certain limited purposes. I agree to hold all such confidential or proprietary information in the strictest confidence and not to disclose it to any person, firm or corporation, or to use it except as necessary in carrying out my work for the Company consistent with the Company's agreement with such third party.

3. **Inventions.**

a. **Inventions retained and licensed.** I have attached hereto, as Exhibit A, a list describing all inventions, original works of authorship, developments, improvements and trade secrets that were made by me prior to my employment with the Company (collectively referred to as *prior inventions*), belong to me, and relate to the Company's proposed business, products, or research and development; and which are not assigned to the Company hereunder. If no such list is attached, I represent that there are no such prior inventions.

If in the course of my employment with the Company, I incorporate into a Company product, process or machine, a prior invention owned by me, or in which I have an interest, the Company is hereby granted, and shall have a nonexclusive, royalty-free, irrevocable, perpetual, worldwide license to make, have made, modify, use and sell such prior invention as part of, or in connection with, such product, process or machine.

b. **Assignment of Inventions.** I agree that I will promptly make full written disclosure to the Company, hold in trust for the Company's sole right and benefit, and hereby assign to the Company or its designee, all my right, title and interest in, any and all inventions, original works of authorship, developments, concepts, improvements or trade secrets—whether or not patentable or registerable under copyright or similar laws—that I may solely or jointly conceive, develop, reduce to practice, or cause to be conceived or developed, or reduced to practice, during the period of time I am in the employ of The Company (collectively referred to as *Inventions*). I further acknowledge that all original works of authorship made by me solely or jointly with others) within the scope of my employment and protectable by copyright are "works made for hire," as that term is defined in The United States Copyright Act.

c. **Maintenance of records.** I agree to keep and maintain adequate and current written records of all inventions made by me (solely or jointly with others) during the term of my employment with The Company. Such records will be in the form of notes, sketches, drawings or any other format that may be specified by the Company. They will be available to, and remain the sole property of, the Company at all times.

d. **Patent and copyright registrations.** I agree to assist the Company or its designee, at the Company's expense, in every proper way, to secure the Company's rights in the *Inventions* and any copyrights, patents, mask work rights or other intellectual property rights relating thereto, in any and all countries, including the disclosure to the Company of all pertinent information and data with respect thereto, the execution of all applications cautions, specifications, oaths, assignments and all other instruments that the Company shall deem necessary in order to apply for, obtain and maintain such rights, and in order to assign and convey to the Company, its successors, assigns and nominees the sole and exclusive rights, title and interest in and to such *Inventions*, and any copyrights, patents, mask work rights or other intellectual property rights relating thereto both now and in the future. In the event that the Company is unable for any reason whatsoever to secure my signature to any lawful and necessary document required to apply for any patent, or to prosecute any patent application with respect to such an *Invention* (including renewals, extensions, continuations, divisions or continuations in part thereof), I hereby irrevocably designate and appoint the Company and its duly authorized officers and agents, as my agents and attorney-in-fact to act for and in my behalf and instead of me, to execute and file any such application and to do all other lawfully permitted acts to further the prosecution and issuance of patents thereon with the same legal force and effect as if executed by me.

4. **Conflicting employment.** I agree that, during the term of my employment with The Company, I will not engage in any other employment, occupation,

consulting or other business activity directly related to the business in which the Company is now involved, or becomes involved with, during the term of employment; nor will I engage in any other activities that conflict with my obligations to the Company. Any exception to this provision must be approved in advance by the CEO.

5. **Compliance with Company policies and with law.** I agree to comply with applicable laws and regulations and with Company policies. In particular, but without limitation, I agree to comply with all health and safety laws and regulations, with the Company's health and safety policies, and with StemCells' Corporate Code of Ethics and Conduct. By signing this Employment Agreement, I acknowledge that I have received, read and understood the Code of Ethics and Conduct.

6. **Returning company documents.** At the time of leaving The Company' employ, I agree to deliver to the Company (and not keep in my possession or deliver to anyone else) any and all devices, records, data, notes, reports, proposals, lists, correspondence, specifications, drawings, blueprints, sketches, materials, equipment, other documents or property, or reproductions of any aforementioned items developed by me pursuant to my employment with the Company, or otherwise belonging to the Company, its successors or assigns.

7. **Solicitation of employees.** I agree that I shall not, for a period of 12 months immediately following the termination of my relationship with The Company for any reason, whether with or without cause, either directly or indirectly solicit or take away, or attempt to solicit or take away, employees of the Company, either for myself or for any other person or entity.

8. **Equitable relief.**

I agree that it would be impossible or inadequate to measure and calculate the Company's damages from any breach of the covenants set forth in items 2, 3, 5 and 7 herein. Accordingly, I agree that if I breach any of such sections, the Company will have available, in addition to any other right or remedy available, the right to obtain an injunction from a court of competent jurisdiction restraining such breach or threatened breach, and to specific performance of any such provision of this Agreement.

9. **General provisions.**

a. **Governing law.** This Agreement will be governed by the laws of the State of California.

b. **Entire agreement.** This Agreement sets forth the entire agreement and understanding between the Company and me relating to the subject matter

herein, and merges all prior discussions between us. No modification of or amendment to this Agreement, nor any waiver of any rights under this Agreement, will be effective unless made in writing and signed by me and an officer of the Company.

c. Severability. If one or more of the provisions in this Agreement are deemed void by law, then the remaining provisions will continue in full force and effect.

d. Successors and assigns. This Agreement will be binding upon my heirs, executors, administrators and other legal representatives, and will be for the benefit of the Company, its successors and assigns.

e. Survival of provisions. I agree that the provisions of Sections 2, 3, 5, 6, 7 and 8 shall survive any expiration or termination of this Agreement or my employment.

Name of Employee (Print and Sign Name)

Date

EXHIBIT A

LIST OF PRIOR INVENTIONS & ORIGINAL WORKS OF AUTHORSHIP

Title	Date	Identifying Number or Brief Description

Name of Employee (type or print)

StemCells, Inc.

by:

Exhibit 10.3

CONFIDENTIALITY AGREEMENT

THIS AGREEMENT is made and entered into this ___ day of _____, 2009, by and between StemCells, Inc., a Delaware corporation with a principal place of business at 3155 Porter Drive, Palo Alto, California 94304 ("StemCells"), and _____, a _____ corporation with a principal place of business at _____ (hereinafter referred to as "Recipient").

1. Recipient has experience with _____; and the parties hereto wish to discuss the possibility of entering into [_____].

2. StemCells is willing, subject to the terms and conditions set forth herein, to disclose to Recipient certain confidential and proprietary information concerning StemCells' business, technologies and/or operations, including the fact that conversations between Recipient and StemCells are taking place (any such information, hereinafter "Confidential Information").

3. In consideration of such disclosure of Confidential Information, Recipient agrees that it shall:

(a) make no use of any of the Confidential Information except for the aforementioned purpose;

(b) not disclose any of the Confidential Information to third parties (except as required by law, as provided below); and

(c) take all reasonable precautions to prevent disclosure of Confidential Information to third parties.

4. This Agreement will apply only to disclosures made within one year of the date hereof, but Recipient's obligations under Section 3 above will continue thereafter for a period of five years. The obligations of Recipient under Section 3 shall not, however, apply to any Confidential Information that:

(a) at the time of disclosure is, or thereafter becomes, available to the public through no fault of Recipient's;

(b) as shown by written records, was known to, or was otherwise in the possession of, Recipient or an affiliate prior to the receipt of such Confidential Information from StemCells;

(c) is provided to Recipient without restriction from a source other than StemCells and other than one who would be breaching a commitment of confidentiality to StemCells by disclosing the Confidential Information to Recipient; or

(d) is developed by Recipient independently of any disclosure made hereunder.

Confidential Information will not be deemed to be within any of the foregoing exceptions merely because it is embraced by general disclosures within such exceptions or within writings or other materials containing both Confidential Information and non-confidential information.

If disclosure of Confidential Information is required by law or legal process, the Receiving Party will notify the Disclosing Party in writing prior to making such disclosure to provide sufficient time to request a protective order; and the Receiving Party will disclose only such information that is legally required and will use its reasonable efforts to obtain confidential treatment for any Confidential Information that is so disclosed.

5. Recipient agrees to return to StemCells all Confidential Information (including copies and excerpts) upon the request of StemCells.

6. StemCells makes no warranties regarding the accuracy or completeness of the information provided, including Confidential Information under this Agreement. Nothing about this Agreement obligates either Party to enter into any other agreement or provides Recipient with any rights with respect to StemCells' proprietary technologies.

7. The failure of StemCells at any time or times to require performance of any of the provisions of this Agreement shall in no manner affect its right to enforce such provision at a later time.

8. This Agreement shall be construed in accordance with the laws of the State of California.

9. This Agreement shall not be assigned or transferred by Recipient without the prior written consent of StemCells and any attempt to make such assignment without such consent shall be null and void.

10. This Agreement constitutes the entire understanding between the parties relating to the subject matter hereof, and no amendment or modification to this Agreement shall be valid or binding upon the parties unless made in writing and signed by each party.

IN WITNESS WHEREOF the parties hereto have executed this Agreement as of the date first written above.

STEMCELLS, INC.	[RECIPIENT]
By _____	By: _____
Name: Kenneth B. Stratton	Name:
Title: General Counsel	Title:

Exhibit 10.26

EXECUTION VERSION

Dated 23 December 2008

Between

STEMCELLS, INC.
as Lender

and

STEM CELL SCIENCES PLC
as Borrower

FACILITY AGREEMENT

MORRISON | FOERSTER

EXECUTION VERSION

THIS FACILITY AGREEMENT is dated December 2008 and is made

BETWEEN:

(1) STEMCELLS, INC. whose address is 3155 Porter Drive, Palo Alto, California 94304-1213, USA (the "**Lender**"); and

(2) STEM CELL SCIENCES PLC whose address is Meditrina Building 260, Babraham Research, Campus, Cambridge CB22 3AT United Kingdom (the "**Borrower**").

WHEREAS:

(A) The share capital of the Borrower is listed on the AIM market of the London Stock Exchange plc.

(B) The Lender is interested in entering into further discussions which may or may not lead to the Lender making an offer to acquire all (or substantially the whole) of the undertaking and assets of the Borrower or of any group company of the Borrower (the "**Proposal**").

(C) The Borrower requires working capital to maintain its current operations during the period of those discussions concerning the Proposal.

(D) The Borrower and SCS Holdings shall grant security to the Lender pursuant to the Share Mortgage Deeds and the Assignment of Contract to be executed by the Lender in connection with this Facility Agreement.

1 INTERPRETATION

1.1 Definitions

In this Facility Agreement the following terms have the meanings given to them in this clause 1.1, except where the context otherwise requires.

"***Advance***" means the loan made or to be made under the Facility or, where the context requires, the principal amount of that loan outstanding.

"***Assignment of Contract***" means the assignment of contract, in a form approved by the Lender and the Borrower, pursuant to which the Borrower shall assign the benefit of an intra-group loan agreement to the Lender by way of security.

"***Borrower's Account***" means the bank account of the Borrower, details of which are as follows:

Account name:	Stem Cell Sciences plc
Bank:	HSBC plc 70 Hanover Street Edinburgh, EH2 1HQ
Bank account no.:	91643177
Sort code:	40-20-44
IBAN:	GB 97MIDL 402044 91643177
BIC:	MIDLGB2111M

"***Borrowings***" means amounts borrowed or raised under any transaction having the commercial effect of a borrowing or raising of finance.

"***Business Day***" means a day (other than Saturday or Sunday) on which banks are open for general business in London and San Francisco.

"***Competing Proposal***" has the meaning given to such term in the Exclusivity Agreement.

"***Default***" means (a) any Event of Default or (b) any event or circumstance which is reasonably likely to constitute an event of Default subject only to the giving of any notice, the expiry of any applicable period, the making of any specified determination or the fulfillment of any specified condition.

"***Duty***" means any duty, obligation or liability of any kind.

"***Event of Default***" means any event or circumstance specified as such in clause 11.2 (*Events of Default*).

"***Exclusivity Letter***" means the exclusivity letter, in a form approved by the Lender and the Borrower, pursuant to which the Borrower shall give certain undertakings and assurances to the Lender in connection with their entering into discussions concerning the Proposal.

"***Facility***" means the loan facility provided under this Facility Agreement as described in clause 2 (*The Facility*).

"***Finance Documents***" means this Facility Agreement, the Guarantee, the Share Mortgage Deeds, the Assignment of Contract, the Negative Pledge Letter and the Exclusivity Letter.

"***Group***" means the Borrower and its Subsidiaries from time to time; and "***Group Company***" means any of them.

"***Guarantee***" means the all-monies guarantee, in a form approved by the Lender and the Borrower, pursuant to which SCS Holdings shall guarantee any obligations of the Borrower to the Lender.

"***Loan***" means, at any time, the aggregate principal amount outstanding under this Facility Agreement.

"***Negative Pledge Letter***" means a letter from SCS UK to the Lender in a form approved by the Lender and the Borrower, confirming, inter alia, that SCS UK will not grant security over its assets to any party without the Lender's prior written consent.

"Permitted Borrowings" means:

(a) Borrowings outstanding in the normal and prudent course of the trading activities of the Group and which have not been overdue for more than 60 days;

(b) Borrowings by Group Companies from other Group Companies, provided that (i) such Borrowings already exist as at the date of this Facility Agreement, or (ii) are necessary in order to remit sums borrowed under this Facility Agreement, or subsequent Permitted Borrowings from non-Group entities, to other Group Companies; and

(c) Borrowings by the Borrower from non-Group entities by way of additional finance, provided that such Borrowings are subordinated to any monies owed by the Borrower to the Lender (being either unsecured or, if secured, then subordinated in a manner satisfactory to the Lender (in which respect the Lender's discretion shall be absolute)); and

(d) any Borrowings arising under the Finance Documents or otherwise in favour of the Lender or any transferee or assignee of, or any refinancing of such Borrowings.

"Permitted Disposal" means any sale, lease, licence, transfer or other disposal on arm's length terms:

(a) of trading stock or cash made in the ordinary course of trading of the disposing entity;

(b) of obsolete or redundant vehicles, plant and equipment for cash; or

(c) arising as a result of any Permitted Security Interest.

"Permitted Loan" means:

(a) any trade credit extended by any Group Company to its customers on normal commercial terms and in the ordinary course of trading and which are not outstanding for more than 60 days; and

(b) loans outstanding between Group Companies (to the extent that these are consistent with the definition of Permitted Borrowings).

"Permitted Security Interests" means:

(a) liens arising by operation of law in the ordinary course of Group Companies' trading;

(b) retention of title claims arising over goods or equipment purchased by Group Companies in the ordinary course of their trading; and

(c) Security Interests granted to the Lender pursuant to the Finance Documents.

"***Regulation***" means any present or future law, regulation, rule, request, requirement or guideline of any authority, whether or not it has the force of law (but, if it does not, with which the person concerned habitually complies or should habitually comply).

"***Repayment Date***" means the date falling 6 months subsequent to the date of this Facility Agreement.

"***Right***" means any right, privilege, power, immunity or other interest or remedy of any kind.

"***SCS Australia***" means Stem Cell Sciences Australia (pty) Limited.

"***SCS Holdings***" means Stem Cell Sciences Holdings Limited.

"***SCS UK"*** means Stem Cell Sciences UK Limited.

"Security Interest" means any mortgage, standard security, charge (whether fixed or floating), assignment by way of security, hypothecation, pledge, lien or other security arrangement of any kind.

"***Share Mortgage Deeds***" means:

(a) the share mortgage deed, in a form approved by the Lender and the Borrower, pursuant to which the Borrower shall grant a charge over shares held by it in SCS Holdings;

(b) the share mortgage deed, in a form approved by the Lender and the Borrower, pursuant to which SCS Holdings shall grant a charge over shares held by it in SCS UK; and

(c) the share mortgage deed, in a form approved by the Lender and the Borrower, pursuant to which SCS Holdings shall grant a charge over shares held by it in SCS Australia.

"Subsidiary" means a subsidiary undertaking within the meaning of section 1162 of, and Schedule 7 to, the Companies Act 2006.

"***Tax***" means any tax, levy, impost, duty or other charge or withholding of a similar nature (including any penalty or interest payable in connection with any failure to pay or any delay in paying any of the same).

"***£***" or "***Sterling***" means the lawful currency of the United Kingdom.

1.2 In this Facility Agreement:

(a) the summary and the headings are inserted for convenience only and do not affect the interpretation of this Facility Agreement;

(b) references to clauses and schedules are to clauses of, and schedules to, this Facility Agreement;

(c) references to this Facility Agreement, a Finance Document or any other document are to this Facility Agreement, that Finance Document or that other document as from time to time amended, restated, novated, or replaced, however fundamentally;

(d) references to a person include an individual, firm, company, corporation, unincorporated body of persons and any government entity;

(e) references to a person include its successors in title, permitted assignees and permitted transferees;

(f) words importing the plural include the singular and vice versa;

(g) references to a time of day are to London time, using the 24 hour clock;

(h) references to any enactment include that enactment as re enacted; and, if an enactment is amended, any provision of this Facility Agreement which refers to that enactment will be amended in such manner as the Lender, after consultation with the Borrower, determines to be necessary in order to preserve the intended effect of this Facility Agreement;

(i) a Default (other than an Event of Default) is "**continuing**" if it has not been remedied or waived and an Event of Default is "**continuing**" if it has not been waived; and

(j) if the due date for any payment under this Facility Agreement falls on a day which is not a Business Day, the due date shall be extended to the next Business Day.

1.3 This Facility Agreement may be executed in any number of counterparts and by the different parties on separate counterparts, each of which may be delivered by facsimile or by pdf and each of which when so executed and delivered shall be an original, but all counterparts shall together constitute one and the same instrument.

1.4 A person who is not a party to this Facility Agreement has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce or enjoy the benefit of any term of this Facility Agreement.

2 THE FACILITY

2.1 Subject to the terms of this Facility Agreement, the Lender makes available to the Borrower a loan facility in an aggregate amount of £200,000.

2.2 The Borrower shall immediately use and apply the whole of the Advance made by the Lender exclusively for the working capital purposes of the Borrower and its subsidiaries.

2.3 The Lender is not bound to monitor or verify the application of any amount borrowed under or pursuant to this Facility Agreement.

3 ADVANCES

3.1 Conditions Precedent to the Facility

The obligation of the Lender to make the Facility available is conditional on the satisfaction of the conditions precedent described in Schedule 2 (*Conditions Precedent to the Facility*). If such conditions precedent are not satisfied within 2 Business Days of the date hereof this Facility Agreement shall terminate without liability to either party.

3.2 Advance

Subject to clause 3.1, the Lender agrees to advance to the Borrower the sum of £200,000 which shall be remitted to the Borrower's Account within 2 Business Days of the date hereof or the date on which the final condition precedent is satisfied, whichever is the later.

3.3 Condition Subsequent to the Facility

The Borrower shall deliver to the Lender as soon as reasonably practicable and in any event within 21 days of the date hereof share certificates in respect of the Borrower's shareholding in Holdings, Holdings' shareholding in UK and Holdings' shareholding in Australia and all other documents reasonably required by the Lender in respect of those shares.

4 REPAYMENT, PREPAYMENT AND CANCELLATION

4.1 Repayment

(a) Subject always to clause 11.1 (*Consequences of an Event of Default*), the Borrower will repay the outstanding Loan together with all other amounts payable under or pursuant to this Facility Agreement on the Repayment Date.

(b) Any amount repaid under this clause 4.1 may not be re-borrowed.

4.2 Prepayment

(a) Without prejudice to the obligation to make payment pursuant to clause 4.1, the Borrower may in its sole discretion prepay the whole or any part of the outstanding Loan together with all other amounts payable under or pursuant to this Facility Agreement at any time prior to the Repayment Date.

(b) Any amount prepaid pursuant to clause 4.2 may not be re-borrowed.

5 INTEREST

5.1 Interest shall accrue on a daily basis on the balance of the Loan from time to time outstanding at a rate of 8 per cent. per annum on the basis of the number of days accrued on the assumption of a 365 day year.

5.2 In the event that any outstanding Loan amount is not repaid on the date required pursuant to this Facility Agreement nor, if applicable, within the cure period set out in clause 11.2(a) for such payment, then the rate of interest accruing thereon pursuant to in clause 5.1 shall be increased to 12 per cent. per annum in respect of the period thereafter until the date such outstanding Loan amount is so repaid in full.

5.3 Interest shall not be compounded.

6 TAXES AND OTHER DEDUCTIONS

6.1 All payments by the Borrower to the Lender under this Facility Agreement shall be without deduction or withholding (including, without limitation, any deduction or withholding of Tax) unless the Borrower is required by law to make a payment subject to such deduction or withholding, in which case the amount payable by the Borrower will be sufficiently increased to ensure that the Lender receives and (after such deduction or withholding) is left with a net sum equal to that which it would have received if no such deduction or withholding had been required.

7 FEES AND EXPENSES

7.1 Each of the parties shall be responsible for its respective legal and other costs incurred in relation to the negotiation, preparation and completion of this Facility Agreement and the other Finance Documents.

7.2 The Borrower shall bear the reasonable cost of any transfer of funds required to be made under the terms of this Facility Agreement, which costs shall be added to, and shall subsequently form part of, the Loan.

8 PAYMENTS

8.1 Payment mechanics

All payments to the Lender under this Facility Agreement shall be made in Sterling, and in immediately available funds into the account of the Lender as detailed in Schedule 1.

8.2 No set-off

All payments to be made to the Lender under this Facility Agreement shall be calculated and made without (and free and clear of any deduction for) set off or counterclaim.

9 REPRESENTATIONS

The Borrower represents to the Lender that all the matters described in this clause 9 are true on the date of this Facility Agreement, by reference to the facts and circumstances then existing:

9.1 The Borrower is duly incorporated and validly existing under the laws of England and Wales and has full power to own its assets and carry on business as it is now being conducted.

9.2 The Borrower has the power to execute the Finance Documents and to exercise its Rights and perform its Duties under the Finance Documents.

9.3 The Finance Documents to which the Borrower is a party constitute (or will, when executed, constitute) legally valid, binding and enforceable obligations of the Borrower enforceable against the Borrower in accordance with their respective terms.

9.4 The execution of the Finance Documents and the exercise of its Rights and the performance of its Duties under the Finance Documents have been duly authorised by all necessary actions of the Borrower and:

(a) do not and will not violate any provision of any law, decree, rule or regulation or of any order, judgment, injunction, determination or award of any court or any judicial, administrative or governmental authority or organisation having applicability to the Borrower;

(b) do not and will not violate any provision of the Memorandum or Articles of Association of the Borrower; and

(c) do not and will not violate any provision of any deed, agreement or other instrument to which the Borrower is a party or which is binding upon it or its assets.

9.5 No judgment has been given in legal proceedings and no arbitral or administrative award has been given which has materially adversely affected the business, assets or financial condition of the Borrower or any of its Subsidiaries and no litigation or administrative or arbitration proceeding before or of any court, tribunal, arbitrator or any other relevant authority is presently in process, pending or (to the knowledge of the Borrower) threatened which might materially and adversely affect the business, assets or financial condition of the Borrower or any of its Subsidiaries (save for threats made in relation to the proposed commencement of proceedings in relation to the non-payment of sums payable by Group Companies in the ordinary course of business).

9.6 There is not in existence nor (to the knowledge of the Borrower) likely to occur any dispute with any governmental or other authority or any other dispute of any kind (other than as may concern the non-payment of sums payable by Group Companies in the ordinary course of business) which in any such case affects the Borrower or any of its Subsidiaries and which might materially and adversely affect their business, assets or financial condition.

9.7 Neither the Borrower nor any of its Subsidiaries is in default under any law, decree, rule or regulation nor under any order, judgment, injunction, determination or award of any court or any judicial, administrative or governmental authority or organisation having applicability to them nor under any deed, agreement or other instrument where such default is likely to materially and adversely affect the business, assets or financial condition of the Borrower or any of its Subsidiaries (other than as may concern the non-payment of sums payable by Group Companies in the ordinary course of business).

9.8 No Default has occurred and is continuing.

10 UNDERTAKINGS

10.1 Negative Undertakings

So long as the Loan or any interest on it remains outstanding the Borrower will not, and will procure that no other Group Company will, without the prior written consent of the Lender:

(a) pay, make or declare any dividend or other distribution or redeem or retire any of its shares or issue any shares (or any interest therein);

(b) incur or have outstanding any Borrowings, other than Permitted Borrowings;

(c) make any loan other than a Permitted Loan;

(d) directly or indirectly (whether by way of personal obligation or otherwise) give or permit to subsist any guarantee, indemnity or other assurance against loss or become or remain liable (contingently or otherwise) for any present or future indebtedness or liability of any other person (other than a Group Company);

(e) make any material change to the nature of its business as carried on at the date of this Facility Agreement or enter into any new business;

(f) (other than in the normal and proper course of business) sell, transfer, lease, license, lend or otherwise dispose of the whole or any substantial part of its properties, assets or revenues, whether by one transaction or a series of transactions (related or not);

(g) create or allow to exist any Security Interest over its present or future properties, assets or revenues, other than Permitted Security Interests;

(h) sell, transfer, leave, lend or otherwise dispose of the whole or any substantial part of its properties, assets or revenues, whether by one transaction or a series of transactions (related or not) other than Permitted Disposals; or

(i) acquire a company or any shares or securities or a business or undertaking, enter into any joint venture or incorporate a company or other entity.

11 DEFAULT

11.1 Consequences of an Event of Default

If an Event of Default has occurred, the Lender may at any time, by giving written notice to the Borrower:

(a) terminate the Facility; and/or

(b) demand repayment of all or any part of the Loan and payment of any other amounts accrued under this Facility Agreement (upon which such amounts will be immediately due and repayable); and/or

(c) declare that all or any part of the Loan and any other amounts accrued under this Facility Agreement are payable on demand by the Lender at any time; and/or

(d) exercise any or all of its rights, remedies, powers or discretions under the Share Mortgage Deeds or the Assignment of contract in accordance with the provisions thereof.

11.2 Events of Default

Each of the matters listed in this clause 11.2 is an Event of Default.

(a) The Borrower fails to repay on the due date any amount payable by it pursuant to this Facility Agreement unless its failure to make such payment is caused by an administrative or technical error and payment is made within 3 Business Days of the due date.

(b) The Borrower repudiates, disaffirms, disclaims or challenges the validity of any Finance Document.

(c) Any representation or statement made or deemed to be made by a Borrower in connection with a Finance Document or any related document is incorrect or misleading in a material respect.

(d) The Borrower or any Group Company breaches any provision of any Finance Document to which it is a party (but, if the Lender considers that the breach is capable

of remedy, there will not be an Event of Default if the Borrower or that other Group Company takes such action as is required by the Lender to rectify the breach within such period, not being less than 5 Business Days, as the Lender stipulates).

(e) A meeting of the Borrower or any other Group Company is convened for the purpose of considering any resolution for (or to petition for) its winding-up or its administration or any such resolution is passed, or any person presents a petition for the winding-up or application for the administration of the Borrower or any other Group Company or any order for the winding-up or administration of the Borrower or any other Group Company is made or any other step (including petition, application, proposal or convening a meeting) is taken with a view to the rehabilitation, administration, custodianship, liquidation, winding-up or dissolution of, or any other insolvency or moratorium proceedings involving, the Borrower or any other Group Company.

(f) Any liquidator, trustee in bankruptcy, judicial custodian, compulsory manager, receiver, administrative receiver, administrator or similar officer is appointed in respect of the Borrower or any other Group Company or any part of the assets of any of them or the directors of the Borrower or any other Group Company request the appointment of a liquidator, trustee in bankruptcy, judicial custodian, compulsory manager, receiver, administrative receiver, administrator or similar officer or any other steps are taken to enforce any Security Interest over any assets of the Borrower or any other Group Company.

(g) A creditor or encumbrancer takes possession of, or a distress, execution, sequestration or other process is levied or enforced upon or sued out against, any material part of the undertaking, assets, properties, rights or revenues of the Borrower or any Group Company and such attachment or process is not discharged within seven days.

(h) The Borrower or any other Group Company suspends payment of all (or substantially all) of its debts or declares itself (or is held by a court of competent jurisdiction) to be unable to pay its debts as they fall due (within the meaning of section 123 of the Insolvency Act 1986).

(i) The Borrower or any other Group Company commences negotiations with all or any class of its creditors with a view to the general readjustment or rescheduling of all or any class of its indebtedness or proposed to enter, or enters, into any assignment, composition or other arrangement for the benefit of its creditors generally or any class of its creditors.

(j) Any event in relation to the Borrower or any other Group Company in any jurisdiction other than England, which has an effect equivalent or similar to any of the events mentioned in Clauses 11.2(e) to (i).

(k) A Competing Proposal is publicly announced and recommended by the Borrower.

11.3 The Borrower will inform the Lender in writing of any matter which gives rise to any Default immediately, and in every case within 3 Business Days of the Borrower becoming aware of the same.

12 MISCELLANEOUS

12.1 Transfer

Neither the Borrower nor the Lender may transfer (either by assignment or by novation) any of its Rights or Duties under this Facility Agreement, save that the Lender may transfer (either by assignment or by novation) any of its Rights and/or Duties under this Facility Agreement to an affiliate of the Lender or, whilst an Event of Default is continuing, to any third party.

12.2 Rights

(a) The Rights of the Lender against the Borrower under this Facility Agreement are cumulative. They do not limit any Rights of the Lender against the Borrower existing under the general law.

(b) No failure by the Lender to exercise any Right under this Facility Agreement will operate as a waiver of that Right. Nor will a single or partial exercise of a Right by the Lender preclude its further exercise.

(c) No delay or omission by the Lender in exercising any right, power or remedy provided by law or under this Facility Agreement shall affect that right, power or remedy, or operate as a waiver of it.

12.3 Notices

(a) Any notice or other communication to a party to this Facility Agreement must be in writing. It must be addressed for the attention of such person, and shall be delivered personally or sent by international signed-for airmail or facsimile to such address or fax number as that party may from time to time notify to the other parties.

(b) Proof of posting or despatch of any notice or communication shall be deemed to be proof of receipt:

(i) in the case of airmail, five Business Days after having been posted;

(ii) in the case of a facsimile, at the time of transmission provided that if deemed receipt (but for this proviso) would have occurred before 9 a.m. on a Business Day the notice shall be deemed to have been received at 9 a.m. on that day, and if deemed receipt (but for this proviso) would have occurred after 5 p.m. on a Business Day, or a day which is not a Business Day, the notice shall be deemed to have been received at 9 a.m. on the next Business Day.

For the purpose of this Clause (b), *"**Business Day**"* means any day which is not a Saturday, Sunday or a public holiday in the place at or to which the notice is sent.

(c) The administrative details of the parties are contained in Schedule 1 (Initial administrative details of the parties), but a party may amend its own details at any time on the provision of 5 Business Days prior written notice to the other parties.

12.4 Partial invalidity

If, at any time, any provision of this Facility Agreement is or becomes illegal, invalid or unenforceable in any respect under any law of any jurisdiction, neither the legality, validity or enforceability of the remaining provisions nor the legality, validity or enforceability of such provision in any other respect or under the law of any other jurisdiction will be affected or impaired in any way.

12.5 Variations

No variations of this Facility Agreement shall be considered as valid and as constituting part of this Facility Agreement unless such variation shall have been made in writing and signed by the parties hereto. The expression "variation" shall include any variation, amendment, supplement, deletion or replacement, however effected.

13 LAW AND JURISDICTION

13.1 Law

This Facility Agreement is governed by, and shall be construed in accordance with, English law.

13.2 Jurisdiction

(a) The Borrower and the Lender irrevocably agrees that the courts of England have exclusive jurisdiction and accordingly submit to the jurisdiction of the courts of England in relation to any matter arising in connection with this Facility Agreement (including regarding its existence). The submission to the English Courts shall not (and shall not be constituted so as to) limited the right of the Lender to take proceedings against the Borrower in any other Court of competent jurisdiction nor should the taking of proceedings in any one jurisdiction preclude the taking of proceedings in any other jurisdiction, concurrently or not.

THIS FACILITY AGREEMENT has been entered into on the date stated at the beginning of this Facility Agreement.

EXECUTION PAGE

THE BORROWER

Executed by)
STEM CELL SCIENCES PLC)

/s/ Alastair Riddell Signature of director

Alastair Riddell Name of director

THE LENDER

Executed as a deed by)
STEMCELLS, INC.)

/s/ Martin McGlynn Signature of authorised signatory

Martin McGlynn Name of authorised signatory

Exhibit 10.27

Dated 1 March 2009

Between

STEMCELLS, INC.
as Lender

and

STEM CELL SCIENCES PLC
as Borrower

and

STEM CELL SCIENCES HOLDINGS LIMITED
as Guarantor

SECOND FACILITY AGREEMENT

THIS FACILITY AGREEMENT is dated 1 March 2009 and is made between

PARTIES:

(1) **STEMCELLS, INC.,** whose address is 3155 Porter Drive, Palo Alto, California 94304-1213, United States of America (the "**Lender**");

(2) **STEM CELL SCIENCES PLC,** whose address is Meditrina Building 260, Babraham Research, Campus, Cambridge CB22 3AT, United Kingdom (the "**Borrower**"); and

(3) **STEM CELL SCIENCES HOLDINGS LIMITED,** whose address is KPMG LLP, Saltire Court, 20 Castle Terrace, Edinburgh, Lothian, EH1 2EG, United Kingdom (the "**Guarantor**").

WHEREAS:

(A) The share capital of the Borrower is listed on the AIM market of the London Stock Exchange plc.

(B) The Lender and the Borrower have entered into an asset purchase agreement (the "**Asset Purchase Agreement**"), to be dated on or around the date of this Second Facility Agreement pursuant to which it is intended that the Lender will acquire certain assets from the Borrower.

(C) The Lender has advanced the sum of £200,000 to the Borrower for use as working capital pursuant to the Facility Agreement.

(D) The Borrower requires further working capital to maintain its current operations prior to completion of all the steps envisaged under the Asset Purchase Agreement.

(E) The Borrower and the Guarantor have granted security to the Lender pursuant to the Share Mortgage Deeds and the Assignment of Contract.

1 INTERPRETATION

1.1 Definitions

In this Second Facility Agreement, the following terms have the meanings given to them in this clause 1.1, except where the context otherwise requires.

"***Advance***" means a loan made or to be made under the Facility or, where the context requires, the principal amount of that loan outstanding.

"***Assignment of Contract***" means the assignment of contract dated 23 December 2008, pursuant to which the Borrower has assigned the benefit of an intra-group loan agreement to the Lender by way of security.

"***Availability Period***" means the period beginning on the date of this Agreement and ending on the earlier of: (i) termination of the Asset Purchase Agreement in accordance with its terms; and (ii) 10 June 2009.

"***Available Facility***" means the principal sum of $415,000 (to the extent not cancelled or reduced in accordance with the terms of this Agreement from time to time) minus, in relation to any proposed Advance, the aggregate principal amount of any Advances already made by the Lender to the Borrower under this Second Facility Agreement.

"***Borrower's Account***" means the bank account of the Borrower, details of which are as follows:

Account name:	Stem Cell Sciences PLC
Bank:	HSBC plc
Account number:	60026313
Sort code:	40-05-15
IBAN:	GB 80 MIDL 40051560026313
BIC:	MIDLGB22

"***Borrowings***" means amounts borrowed or raised under any transaction having the commercial effect of a borrowing or raising of finance.

"***Business Day***" means a day (other than Saturday or Sunday) on which banks are open for general business in London and San Francisco.

"***Default***" means: (a) any Event of Default; or (b) any event or circumstance which is reasonably likely to constitute an event of Default subject only to the giving of any notice, the expiry of any applicable period, the making of any specified determination or the fulfillment of any specified condition.

"***Drawdown Date***" means, in relation to an Advance, the date falling within the applicable Availability Period, being a Business Day, on which it is, or is to be, drawn down.

"***Drawdown Notice***" means a notice substantially in the form of Schedule 3 (*Form of Drawdown Notice*), and otherwise in form and substance satisfactory to the Lender, duly completed by the Borrower.

"***Duty***" means any duty, obligation or liability of any kind.

"***Event of Default***" means any event or circumstance specified as such in clause 11.2 (*Events of Default*).

"***Exclusivity Letter***" means the exclusivity letter dated 23 December 2008, as amended, pursuant to which the Borrower has given certain undertakings and assurances to the Lender in connection with their entering into discussions concerning the Proposal (as defined therein).

"***Facility***" means the loan facility provided under this Second Facility Agreement as described in clause 2 (*The Facility*).

"***Facility Agreement***" means the facility agreement dated 23 December 2008 made between the Borrower and the Lender.

"***Finance Documents***" means this Second Facility Agreement, the Facility Agreement, the Guarantee, the Share Mortgage Deeds, the Assignment of Contract, the Negative Pledge Letter and the Exclusivity Letter.

"***Group***" means the Borrower and its Subsidiaries from time to time; and "***Group Company***" means any of them.

"***Guarantee***" means the all-monies guarantee dated 23 December 2008, pursuant to which the Guarantor has guaranteed any obligations of the Borrower to the Lender.

"***Loan***" means, at any time, the aggregate principal amount outstanding under this Second Facility Agreement.

"***Negative Pledge Letter***" means the letter from SCS UK to the Lender dated 23 December 2008 confirming, inter alia, that SCS UK will not grant security over its assets to any party without the Lender's prior written consent.

"Permitted Borrowings" means:

(a) Borrowings outstanding in the normal and prudent course of the trading activities of the Group and which have not been overdue for more than 60 days; and

(b) Borrowings by Group Companies from other Group Companies, provided that (i) such Borrowings already exist as at the date of this Second Facility Agreement, or (ii) are necessary in order to remit sums borrowed under this Second Facility Agreement, or subsequent Permitted Borrowings from non-Group entities, to other Group Companies; and

(c) Borrowings by the Borrower from non-Group entities by way of additional finance, provided that such Borrowings are subordinated to any monies owed by the Borrower to the Lender (being either unsecured or, if secured, then subordinated in a manner satisfactory to the Lender (in which respect the Lender's discretion shall be absolute)); and

(d) any Borrowings arising under the Finance Documents or otherwise in favour of the Lender or any transferee or assignee of, or any refinancing of such Borrowings.

"Permitted Disposal" means any sale, lease, licence, transfer or other disposal on arm's length terms:

(a) of trading stock or cash made in the ordinary course of trading of the disposing entity;

(b) of obsolete or redundant vehicles, plant and equipment for cash; or

(c) arising as a result of any Permitted Security Interest.

"Permitted Loan" means:

(a) any trade credit extended by any Group Company to its customers on normal commercial terms and in the ordinary course of trading and which are not outstanding for more than 60 days; and

(b) loans outstanding between Group Companies (to the extent that these are consistent with the definition of Permitted Borrowings).

"Permitted Security Interests" means:

(a) liens arising by operation of law in the ordinary course of Group Companies' trading;

(b) retention of title claims arising over goods or equipment purchased by Group Companies in the ordinary course of their trading; and

(c) Security Interests granted to the Lender pursuant to the Finance Documents.

"***Regulation***" means any present or future law, regulation, rule, request, requirement or guideline of any authority, whether or not it has the force of law (but, if it does not, with which the person concerned habitually complies or should habitually comply).

"***Repayment Date***" means 23 June 2009.

"***Right***" means any right, privilege, power, immunity or other interest or remedy of any kind.

"SCS Australia" means Stem Cell Sciences (Australia) Pty Ltd.

"***SCS UK"*** means Stem Cell Sciences UK Limited.

"Security Interest" means any mortgage, standard security, charge (whether fixed or floating), assignment by way of security, hypothecation, pledge, lien or other security arrangement of any kind.

"***Share Mortgage Deeds***" means:

(a) the share mortgage deed dated 23 December 2008, pursuant to which the Borrower has granted a charge over shares held by it in the Guarantor;

(b) the share mortgage deed dated 23 December 2008, pursuant to which the Guarantor has granted a charge over shares held by it in SCS UK; and

(c) the share mortgage deed dated 23 December 2008, pursuant to which the Guarantor has granted a charge over shares held by it in SCS Australia.

"Subsidiary" means a subsidiary undertaking within the meaning of section 1162 of, and Schedule 7 to, the Companies Act 2006.

"***Tax***" means any tax, levy, impost, duty or other charge or withholding of a similar nature (including any penalty or interest payable in connection with any failure to pay or any delay in paying any of the same).

*"**US$**"* or *"**US Dollars**"* means the lawful currency of the United States of America.

1.2 In this Second Facility Agreement:

(a) the summary and the headings are inserted for convenience only and do not affect the interpretation of this Second Facility Agreement;

(b) references to clauses and schedules are to clauses of, and schedules to, this Second Facility Agreement;

(c) references to this Second Facility Agreement, a Finance Document or any other document are to this Second Facility Agreement, that Finance Document or that other document as from time to time amended, restated, novated, or replaced, however fundamentally;

(d) references to a person include an individual, firm, company, corporation, unincorporated body of persons and any government entity;

(e) references to a person include its successors in title, permitted assignees and permitted transferees;

(f) words importing the plural include the singular and vice versa;

(g) references to a time of day are to London time, using the 24 hour clock;

(h) references to any enactment include that enactment as re enacted; and, if an enactment is amended, any provision of this Second Facility Agreement which refers to that enactment will be amended in such manner as the Lender, after consultation with the Borrower, determines to be necessary in order to preserve the intended effect of this Second Facility Agreement;

(i) a Default (other than an Event of Default) is "**continuing**" if it has not been remedied or waived and an Event of Default is "**continuing**" if it has not been waived; and

(j) if the due date for any payment under this Second Facility Agreement falls on a day which is not a Business Day, the due date shall be extended to the next Business Day.

1.3 This Second Facility Agreement may be executed in any number of counterparts and by the different parties on separate counterparts, each of which may be delivered by facsimile or by PDF and each of which when so executed and delivered shall be an original, but all counterparts shall together constitute one and the same instrument.

1.4 A person who is not a party to this Second Facility Agreement has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce or enjoy the benefit of any term of this Second Facility Agreement.

2 THE FACILITY

2.1 Subject to the terms of this Agreement, the Lender makes available to the Borrower a loan facility in an aggregate amount not exceeding the Available Facility.

2.2 The Borrower shall immediately use and apply any Advance made by the Lender exclusively for the purposes specified in the Drawdown Notice relating to that Advance.

2.3 The Lender is not bound to monitor or verify the application of any amount borrowed under or pursuant to this Second Facility Agreement.

3 ADVANCES

3.1 Conditions Precedent

The availability of the Facility is conditional on the satisfaction of the conditions precedent described in Schedule 2 (*Conditions Precedent*). If such conditions precedent are not satisfied within 2 Business Days of the date hereof this Second Facility Agreement shall terminate without liability to either party.

3.2 Advances under the Facility

(a) If the Borrower wishes to draw an Advance (in addition to the Initial Advance), it may deliver an irrevocable Drawdown Notice during the Availability Period to the Lender. Such Drawdown Notice must be delivered by 16:00 at least 3 Business Days before the intended Drawdown Date or such shorter period as the Lender may agree and:

- **(i)** specify the amount of the Advance proposed to be drawn down (which may not exceed the Available Facility);
- **(ii)** specify the proposed Drawdown Date;
- **(iii)** if the Drawdown Date is prior to Completion, provide a reasonably detailed schedule of the proposed working capital costs and expenses of the Borrower;
- **(iv)** provide a reasonably detailed description of the purpose for which it is intended that the Advance be utilised; and
- **(v)** confirm that, so far as the Borrower is aware, no Default has occurred and is continuing or, in the reasonable and honest belief of the Borrower, will result from the making of the Advance.

(b) Amounts Advanced by the Lender to the Borrower shall be used by the Borrower solely for the bona fide working capital purposes of the Borrower and its subsidiaries, for paying the Seller's Transaction Expenses (as defined in the Asset Purchase Agreement) and/or bona fide expenses incurred by the Seller after the Completion Date (as defined in the Asset Purchase Agreement) in connection with the non-trading administrative operations and/or proposed winding-up of the Seller (together the ***"Specified Purposes"***).

(c) The Lender shall make a proposed Advance available to the Borrower on the Drawdown Date provided that: (i) no Default then exists; and (ii) the purpose(s) for which it is intended that the Advance will be utilised (as stated in the Drawdown Notice) are Specified Purposes.

(d) Each Advance shall be remitted to the Borrower's Account on the proposed Drawdown Date.

(e) Each Advance will:

(i) be in US Dollars; and

(ii) once made, will consolidate and form part of the Loan.

3.3 Availability Period

An Advance will only be made during the Availability Period.

4 REPAYMENT, PREPAYMENT AND CANCELLATION

4.1 Repayment

(a) Subject always to clause 11.1 (*Consequences of an Event of Default*), the Borrower will repay the outstanding Loan together with all other amounts payable under or pursuant to this Second Facility Agreement on the Repayment Date.

(b) Any amount repaid under this clause 4.1 may not be re-borrowed.

4.2 Prepayment

(a) Without prejudice to the obligation to make payment pursuant to clause 4.1, the Borrower may in its sole discretion prepay the whole or any part of the outstanding Loan together with all other amounts payable under or pursuant to this Second Facility Agreement at any time prior to the Repayment Date.

(b) Any amount prepaid pursuant to this clause 4.2 may not be re-borrowed.

5 INTEREST

5.1 Interest shall accrue on a daily basis on the balance of the Loan from time to time outstanding at a rate of 8 per cent. per annum on the basis of the number of days accrued on the assumption of a 365 day year.

5.2 In the event that any outstanding Loan amount is not repaid on the date required pursuant to this Second Facility Agreement nor, if applicable, within the cure period set out in clause 11.2(a) for such payment, then the rate of interest accruing thereon pursuant to in clause 5.1 shall be increased to 12 per cent. per annum in respect of the period thereafter until the date such outstanding Loan amount is so repaid in full.

5.3 Interest shall not be compounded.

6 TAXES AND OTHER DEDUCTIONS

6.1 All payments by the Borrower to the Lender under this Second Facility Agreement shall be without deduction or withholding (including, without limitation, any deduction or withholding of Tax) unless the Borrower is required by law to make a payment subject to such deduction or withholding, in which case the amount payable by the Borrower will be

sufficiently increased to ensure that the Lender receives and (after such deduction or withholding) is left with a net sum equal to that which it would have received if no such deduction or withholding had been required.

7 FEES AND EXPENSES

7.1 Each of the parties shall be responsible for its respective legal and other costs incurred in relation to the negotiation, preparation and completion of this Second Facility Agreement and the other Finance Documents.

7.2 The Borrower shall bear the reasonable cost of any transfer of funds required to be made under the terms of this Second Facility Agreement, which costs shall be added to, and shall subsequently form part of, the Loan.

8 PAYMENTS

8.1 Payment mechanics

All payments to the Lender under this Second Facility Agreement shall be made in US Dollars, and in immediately available funds into the account of the Lender as detailed in Schedule 1 (*Initial administrative details of the parties*).

8.2 No set-off

All payments to be made to the Lender under this Second Facility Agreement shall be calculated and made without (and free and clear of any deduction for) set off or counterclaim.

9 REPRESENTATIONS

The Borrower represents to the Lender that all the matters described in this clause 9 are true on the date of this Second Facility Agreement, by reference to the facts and circumstances then existing:

9.1 The Borrower is duly incorporated and validly existing under the laws of England and Wales and has full power to own its assets and carry on business as it is now being conducted.

9.2 The Borrower has the power to execute the Finance Documents and to exercise its Rights and perform its Duties under the Finance Documents.

9.3 The Finance Documents to which the Borrower is a party constitute (or will, when executed, constitute) legally valid, binding and enforceable obligations of the Borrower enforceable against the Borrower in accordance with their respective terms.

9.4 The execution of the Finance Documents and the exercise of its Rights and the performance of its Duties under the Finance Documents have been duly authorised by all necessary actions of the Borrower and:

(a) do not and will not violate any provision of any law, decree, rule or regulation or of any order, judgment, injunction, determination or award of any court or any judicial, administrative or governmental authority or organisation having applicability to the Borrower;

(b) do not and will not violate any provision of the Memorandum or Articles of Association of the Borrower; and

(c) do not and will not violate any provision of any deed, agreement or other instrument to which the Borrower is a party or which is binding upon it or its assets.

9.5 No judgment has been given in legal proceedings and no arbitral or administrative award has been given which has materially adversely affected the business, assets or financial condition of the Borrower or any of its Subsidiaries and no litigation or administrative or arbitration proceeding before or of any court, tribunal, arbitrator or any other relevant authority is presently in process, pending or (to the knowledge of the Borrower) threatened which might materially and adversely affect the business, assets or financial condition of the Borrower or any of its Subsidiaries (save for threats made in relation to the proposed commencement of proceedings in relation to the non-payment of sums payable by Group Companies in the ordinary course of business).

9.6 There is not in existence nor (to the knowledge of the Borrower) likely to occur any dispute with any governmental or other authority or any other dispute of any kind (other than as may concern the non-payment of sums payable by Group Companies in the ordinary course of business) which in any such case affects the Borrower or any of its Subsidiaries and which might materially and adversely affect their business, assets or financial condition.

9.7 Neither the Borrower nor any of its Subsidiaries is in default under any law, decree, rule or regulation nor under any order, judgment, injunction, determination or award of any court or any judicial, administrative or governmental authority or organisation having applicability to them nor under any deed, agreement or other instrument where such default is likely to materially and adversely affect the business, assets or financial condition of the Borrower or any of its Subsidiaries (other than as may concern the non-payment of sums payable by Group Companies in the ordinary course of business).

9.8 No Default has occurred and is continuing.

10 UNDERTAKINGS

10.1 Negative Undertakings

So long as the Loan or any interest on it remains outstanding the Borrower will not, and will procure that no other Group Company will, without the prior written consent of the Lender:

(a) pay, make or declare any dividend or other distribution or redeem or retire any of its shares or issue any shares (or any interest therein);

(b) incur or have outstanding any Borrowings, other than Permitted Borrowings;

(c) make any loan other than a Permitted Loan;

(d) directly or indirectly (whether by way of personal obligation or otherwise) give or permit to subsist any guarantee, indemnity or other assurance against loss or become or remain liable (contingently or otherwise) for any present or future indebtedness or liability of any other person (other than a Group Company);

(e) make any material change to the nature of its business as carried on at the date of this Second Facility Agreement or enter into any new business;

(f) (other than in the normal and proper course of business) sell, transfer, lease, license, lend or otherwise dispose of the whole or any substantial part of its properties, assets or revenues, whether by one transaction or a series of transactions (related or not);

(g) create or allow to exist any Security Interest over its present or future properties, assets or revenues, other than Permitted Security Interests;

(h) sell, transfer, leave, lend or otherwise dispose of the whole or any substantial part of its properties, assets or revenues, whether by one transaction or a series of transactions (related or not) other than Permitted Disposals; or

(i) acquire a company or any shares or securities or a business or undertaking, enter into any joint venture or incorporate a company or other entity.

11 DEFAULT

11.1 Consequences of an Event of Default

If an Event of Default has occurred, the Lender may at any time, by giving written notice to the Borrower:

(a) terminate the Facility; and/or

(b) demand repayment of all or any part of the Loan and payment of any other amounts accrued under this Second Facility Agreement (upon which such amounts will be immediately due and repayable); and/or

(c) declare that all or any part of the Loan and any other amounts accrued under this Second Facility Agreement are payable on demand by the Lender at any time; and/or

(d) exercise any or all of its rights, remedies, powers or discretions under the Share Mortgage Deeds or the Assignment of contract in accordance with the provisions thereof.

11.2 Events of Default

Each of the matters listed in this clause 11.2 is an Event of Default.

(a) The Borrower fails to repay on the due date any amount payable by it pursuant to either the Facility Agreement or this Second Facility Agreement, unless its failure to make such payment is caused by an administrative or technical error and payment is made within 3 Business Days of the due date.

(b) The Borrower repudiates, disaffirms, disclaims or challenges the validity of any Finance Document.

(c) Any representation or statement made or deemed to be made by a Borrower in connection with a Finance Document or any related document is incorrect or misleading in a material respect.

(d) The Borrower or any Group Company breaches any provision of any Finance Document to which it is a party (but, if the Lender considers that the breach is capable of remedy, there will not be an Event of Default if the Borrower or that other Group Company takes such action as is required by the Lender to rectify the breach within such period, not being less than 5 Business Days, as the Lender stipulates).

(e) A meeting of the Borrower or any other Group Company is convened for the purpose of considering any resolution for (or to petition for) its winding-up or its administration or any such resolution is passed, or any person presents a petition for the winding-up or application for the administration of the Borrower or any other Group Company or any order for the winding-up or administration of the Borrower or any other Group Company is made or any other step (including petition, application, proposal or convening a meeting) is taken with a view to the rehabilitation, administration, custodianship, liquidation, winding-up or dissolution of, or any other insolvency or moratorium proceedings involving, the Borrower or any other Group Company.

(f) Any liquidator, trustee in bankruptcy, judicial custodian, compulsory manager, receiver, administrative receiver, administrator or similar officer is appointed in respect of the Borrower or any other Group Company or any part of the assets of any of them or the directors of the Borrower or any other Group Company request the appointment of a liquidator, trustee in bankruptcy, judicial custodian, compulsory manager, receiver, administrative receiver, administrator or similar officer or any other steps are taken to enforce any Security Interest over any assets of the Borrower or any other Group Company.

(g) A creditor or encumbrancer takes possession of, or a distress, execution, sequestration or other process is levied or enforced upon or sued out against, any material part of the undertaking, assets, properties, rights or revenues of the Borrower or any Group Company and such attachment or process is not discharged within seven days.

(h) The Borrower or any other Group Company suspends payment of all (or substantially all) of its debts or declares itself (or is held by a court of competent jurisdiction) to be unable to pay its debts as they fall due (within the meaning of section 123 of the Insolvency Act 1986).

(i) The Borrower or any other Group Company commences negotiations with all or any class of its creditors with a view to the general readjustment or rescheduling of all or any class of its indebtedness or proposed to enter, or enters, into any assignment, composition or other arrangement for the benefit of its creditors generally or any class of its creditors.

(j) Any event in relation to the Borrower or any other Group Company in any jurisdiction other than England, which has an effect equivalent or similar to any of the events mentioned in clauses 11.2(e) to (i) (inclusive).

(k) The Lender terminates the Asset Purchase Agreement in accordance with clause 10.1(e) of that agreement.

11.3 The Borrower will inform the Lender in writing of any matter which gives rise to any Default immediately, and in every case within 3 Business Days of the Borrower becoming aware of the same.

12 GUARANTEE AND SECURITY

12.1 The Borrower acknowledges and confirms that clause 2 (*Assignment*) of the Assignment of Contract will on and after the date of this Second Facility Agreement continue to secure all present and future obligations and liabilities owed by the Borrower to the Lender, whether actual or contingent, and whether owed jointly or severally, as principal or surety and/or in any other capacity whatsoever, under or in connection with the Finance Documents including this Second Facility Agreement.

12.2 The Guarantor acknowledges and confirms that on and after the date of this Second Facility Agreement its obligations under clause 1 (*Guarantee and Indemnity*) of the Guarantee will continue in full force and effect and will extend to and include all of the liabilities of the Borrower under this Second Facility Agreement.

12.3 Each of the Borrower and the Guarantor acknowledges and confirms that each of the Share Mortgage Deeds executed by them will (as applicable) on and after the date of this Second Facility Agreement continue to secure all present and future obligations and liabilities owed by the Borrower to the Lender, whether actual or contingent, and whether owed jointly or severally, as principal or surety and/or in any other capacity whatsoever, under or in connection with the Finance Documents including this Second Facility Agreement.

13 MISCELLANEOUS

13.1 Transfer

Neither the Borrower nor the Lender may transfer (either by assignment or by novation) any of its Rights or Duties under this Second Facility Agreement, save that the Lender may transfer (either by assignment or by novation) any of its Rights and/or Duties under this Second Facility Agreement to an affiliate of the Lender or, whilst an Event of Default is continuing, to any third party.

13.2 Rights

(a) The Rights of the Lender against the Borrower under this Second Facility Agreement are cumulative. They do not limit any Rights of the Lender against the Borrower existing under the general law.

(b) No failure by the Lender to exercise any Right under this Second Facility Agreement will operate as a waiver of that Right. Nor will a single or partial exercise of a Right by the Lender preclude its further exercise.

(c) No delay or omission by the Lender in exercising any right, power or remedy provided by law or under this Second Facility Agreement shall affect that right, power or remedy, or operate as a waiver of it.

13.3 Notices

(a) Any notice or other communication to a party to this Second Facility Agreement must be in writing. It must be addressed for the attention of such person, and shall be delivered personally or sent by international signed-for airmail or facsimile to such address or fax number as that party may from time to time notify to the other parties.

(b) Proof of posting or despatch of any notice or communication shall be deemed to be proof of receipt:

(i) in the case of airmail, five Business Days after having been posted;

(ii) in the case of a facsimile, at the time of transmission provided that if deemed receipt (but for this proviso) would have occurred before 9 a.m. on a Business Day the notice shall be deemed to have been received at 9 a.m. on that day, and if deemed receipt (but for this proviso) would have occurred after 5 p.m. on a Business Day, or a day which is not a Business Day, the notice shall be deemed to have been received at 9:00 a.m. on the next Business Day.

For the purpose of this clause 13.3(b), *"**Business Day**"* means any day which is not a Saturday, Sunday or a public holiday in the place at or to which the notice is sent.

(c) The administrative details of the parties are contained in Schedule 1 (*Initial administrative details of the parties*), but a party may amend its own details at any time on the provision of 5 Business Days prior written notice to the other parties.

13.4 Partial invalidity

If, at any time, any provision of this Second Facility Agreement is or becomes illegal, invalid or unenforceable in any respect under any law of any jurisdiction, neither the legality, validity or enforceability of the remaining provisions nor the legality, validity or enforceability of such provision in any other respect or under the law of any other jurisdiction will be affected or impaired in any way.

13.5 Variations

No variations of this Second Facility Agreement shall be considered as valid and as constituting part of this Second Facility Agreement unless such variation shall have been made in writing and signed by the parties hereto. The expression "variation" shall include any variation, amendment, supplement, deletion or replacement, however effected.

14 LAW AND JURISDICTION

14.1 Law

This Second Facility Agreement is governed by, and shall be construed in accordance with, English law.

14.2 Jurisdiction

The Borrower and the Lender irrevocably agrees that the courts of England have exclusive jurisdiction and accordingly submit to the jurisdiction of the courts of England in relation to any matter arising in connection with this Facility Agreement (including regarding its existence). The submission to the English Courts shall not (and shall not be constituted so as to) limited the right of the Lender to take proceedings against the Borrower in any other Court of competent jurisdiction nor should the taking of proceedings in any one jurisdiction preclude the taking of proceedings in any other jurisdiction, concurrently or not.

THIS SECOND FACILITY AGREEMENT has been entered into on the date stated at the beginning of this Second Facility Agreement.

EXECUTION PAGE

THE LENDER

Executed as a deed by)
STEMCELLS, INC.)

/s/ Alastair Riddell Signature of authorised signatory

Alastair Riddell Name of authorised signatory

THE BORROWER

Executed for and on behalf of)
STEM CELL SCIENCES PLC)

/s/ Martin McGlynn Signature of director

Martin McGlynn Name of director

THE GUARANTOR

Executed for and on behalf of)
STEM CELL SCIENCES HOLDINGS LIMTED)

/s/ Alastair Riddell Signature of director

Alastair Riddell Name of director

Exhibit 10.28

ASSET PURCHASE AGREEMENT

Dated as of March 1, 2009

between

STEMCELLS, INC.

and

STEM CELL SCIENCES PLC

ASSET PURCHASE AGREEMENT

This Asset Purchase Agreement (this "Agreement"), is entered into and effective as of March 1, 2009 (the "Effective Date"), by and between StemCells, Inc. a Delaware corporation whose address is at 3155 Porter Drive, Palo Alto, CA 94304 (the "Purchaser"), and Stem Cell Sciences plc (Registered Number 05455929), a public limited company registered in England and Wales having its Registered Office at Meditrina Building 260, Babraham Research Campus, Cambridge CB22 3A, United Kingdom (the "Seller").

RECITALS

WHEREAS, the boards of directors of the Purchaser and Seller have deemed it expedient and in the best interests of their respective companies and stockholders that they consummate the Acquisition and the Contemplated Transactions, each as defined below;

WHEREAS, in order to induce Purchaser to enter into this Agreement, concurrently with the execution and delivery of this Agreement, certain Significant Security Holders of the Seller are executing Voting Agreements in favor of certain resolutions proposed to be put to the stockholders of the Seller concerning the approval of the Contemplated Transactions; and

WHEREAS, the Parties hereto desire to make certain representations, warranties, covenants, and agreements in connection with the transactions described above and also to prescribe various conditions to the consummation of the Contemplated Transactions;

AGREEMENT

NOW THEREFORE, in consideration of the premises and mutual promises herein made, and in consideration of the representations, warranties and covenants herein contained, Purchaser and Seller hereby agree as follows:

1. DEFINITIONS; CERTAIN RULES OF CONSTRUCTION.

1.1. As used herein, the following terms will have the following meanings:

"Accounts" means the accounts of each member of the Acquired Group and the audited consolidated accounts of the Seller and its Subsidiaries for the accounting reference period which ended on the Accounts Date (comprising in each case a balance sheet and income statement or, as the case may be, a consolidated balance sheet and consolidated income statement, notes and directors' and auditors' reports).

"Accounts Date" means December 31, 2007.

"Accounts Relief" means any relief which appears as an asset in the Completion Statement or has been taken into account in reducing or eliminating any provision for deferred Tax which appears in the Completion Statement (or which, but for the presumed availability of such relief, would have appeared in the Completion Statement) and any prepayment of tax which is treated as an asset in the Completion Statement

"Acquired Assets" is defined in Section 2.1.

"Acquired Group" means the Company and each Subsidiary of the Company, including the Operating Subsidiaries, or any of them.

"Acquired Product(s)" means all biological, cell line, medical, and drug products and related materials manufactured, distributed or developed by, or on behalf of, the Seller and its Subsidiaries, including cell culture media, transgenic animals, and human and murine stem and progenitor cell lines.

"Acquired Shares" means 4,320,000 A ordinary shares of £0.0001 each and 10,995,000 ordinary shares of £0.0001 each in the capital of the Company, which together comprise the entire issued share capital of the Company.

"Acquisition" means the purchase and sale of the Acquired Assets and the assumption of the Assumed Liabilities.

"Acquisition Consideration" means the sum of (i) the Purchaser Shares and (ii) the Assumed Liabilities.

"Action" means any Claim, action, cause of action, or suit (whether in contract, tort or otherwise), litigation (whether at law or in equity, whether civil or criminal), controversy, assessment, arbitration, investigation, hearing, charge, complaint, demand, notice or proceeding to, from, by, or before any Governmental Authority; *provided*, *however*, that Patent prosecution in the Ordinary Course of Business before the U.S. Patent and Trademark Office, corresponding foreign patent offices and under the Patent Cooperation Treaty, will not be considered an "Action."

"Affiliate," with respect to any specified Person, means: (a) each Person directly or indirectly controlling, controlled by or under direct or indirect common control with such specified Person at such time, (b) each Person who is at such time an officer or director of, or direct or indirect beneficial holder of at least 10% of any class of the Equity Interests of, such specified Person, and (c) each Person that is managed by a common group of executive officers and directors as such specified Person.

"Agreement" is defined in the Preamble.

"AIM Rules for Companies" means the AIM Rules for Companies as published by the London Stock Exchange plc.

"Ancillary Agreements" means the Escrow Agreement, the Voting Agreements, the Assignment and Assumption Agreement, the Stock Transfer Form and the Second Facility Agreement.

"Assets" means all of the properties, rights and assets of Seller and its Subsidiaries, whether real or personal and whether tangible or intangible, including all assets reflected in the Half-Yearly Report or acquired after the Half-Yearly Report Date (except for such assets that

have been sold or otherwise disposed of since the Half-Yearly Report Date in the Ordinary Course of Business).

"Assigned Agreements" is defined in Section 2.1(d).

"Assignment and Assumption Agreements" means the assignment and assumption agreements (and where applicable the deeds of novation) to be entered into between the Purchaser and Seller (and where applicable a Third Party), which will be in a form reasonably acceptable to the Parties, concerning the assignment of the Assigned Agreements.

"Assumed Liabilities" is defined in Section 2.3.

"ASX Listing Rules" means the rule governing the admission of securities to the official list of the Australian Stock Exchange operated by ASX Limited.

"Awards" means any outstanding options and awards granted to employees of the Acquired Group prior to Completion under any share scheme, share based remuneration scheme, share option scheme or similar arrangements operated by the Seller or in which employees of the Acquired Group or former employees were entitled to, or did, participate including the Stem Cell Sciences EMI Scheme, the Stem Cell Sciences Unapproved Share Option Scheme and the various standalone option agreements which have been disclosed.

"Bloomberg" is defined in Section 11.7.

"Business" means the business and operations conducted or proposed to be conducted by the Seller and its Subsidiaries, including the research and development of technologies to grow, differentiate, purify, and use adult and embryonic stem cells, whether for the development of therapeutics or to permit the generation of highly purified stem cells and their differentiated progeny for use in genetic, pharmacological and toxicological screens, or otherwise.

"Business Day" means any weekday other than a weekday on which banks in either London or San Francisco are authorized or required to be closed.

"Circular" means the circular to the Seller's stockholders required to be published pursuant to Rule 15 of the AIM Rules for Companies setting out the information specified by Rule 15 of, and Schedule 4 to, the AIM Rules for Companies and convening a general meeting of the Seller's stockholders.

"Claim" means any claim or assertion of any other right whatsoever (including arising under any Debt, bond, promise, liability for damages, equitable claim and/or judgment), whether liquidated, fixed or contingent, direct or indirect, or imputed.

"Code" means the U.S. Internal Revenue Code of 1986.

"Commercial Confidential Information" means all information not in the public domain, other than Technical Confidential Information, which Seller and/or any of its Representatives received or obtained at any time by reason of, or in connection with, their relationship with either the Acquired Group or the Business, including: trade secrets; customer/client lists, contact

details of, or other information relating to, clients, customers and suppliers and individuals within those organizations; financial projections, target details and accounts; fee levels, pricing policies, commissions and commission charges; budgets, forecasts, reports, interpretations, records, and corporate and business plans; planned products and services; and marketing and advertising plans, requirements and materials, marketing surveys and research reports and market share and pricing statistics.

"Companies Legislation" means the Companies Act 2006, Companies Act 1985, Companies Consolidation (Consequential Provisions) Act 1985, Companies Act 1989 and Part V of Criminal Justice Act 1993.

"Company" means Stem Cell Sciences Holdings Limited, a private limited company registered in the United Kingdom (Registered Number SC247746) having its Registered Office at Saltire Court, 20 Castle Terrance, Edinburgh, Lothian EH1 2ED, United Kingdom. Certain details of the Company are set out in Schedule 1.1(a).

"Compensation" means, with respect to any Person, all salaries, compensation, remuneration, bonuses, or benefits of any kind whatever (including issuances or grants of Equity Interests), made directly or indirectly to such Person or Affiliates of such Person.

"Competing Proposal" is defined in Section 7.7(a).

"Completion" is defined in Section 3.2.

"Completion Date" means the date on which the Completion actually occurs.

"Conditions" means the conditions to the Purchaser's obligations at the Completion, as set out in Section 8 and the conditions to the Seller's obligations at the Completion, as set out in Section 9.

"Confidentiality Agreement" is defined in Section 7.4(a).

"Contemplated Transactions" means, collectively, the transactions contemplated by this Agreement, including (a) the Acquisition and (b) the execution, delivery and performance of this Agreement and the Ancillary Agreements.

"Contractual Obligation" means, with respect to any Person, any contract, agreement, deed, mortgage, lease, license, commitment, promise, undertaking, arrangement, or understanding, whether written or oral and whether express or implied, or other document or instrument (including any document or instrument evidencing or otherwise relating to any Debt) to which, or by which, such Person is a party or otherwise subject or bound or to which, or by which, any property, business, operation, or right of such Person is subject or bound.

"Copyrights" means all copyrights and copyrightable works, whether published or unpublished, including all rights of authorship, use, publication, reproduction, distribution, performance and public display, transformation, moral rights and rights of ownership of copyrightable works and all rights to register and obtain renewals and extensions of registrations,

rights to make derivative works based on the foregoing, together with all other interests accruing by reason of copyright law.

"Credit Facility" is defined in Section 7.13.

"Debt" means, with respect to any Person, all obligations (including all obligations in respect of principal, accrued interest, penalties, fees, and premiums) of such Person (a) for borrowed money (including overdraft facilities), (b) evidenced by notes, bonds, debentures, or similar Contractual Obligations, (c) for the deferred purchase price of property, goods or services (other than trade payables or accruals incurred in the Ordinary Course of Business), (d) under capital leases (in accordance with IFRS), (e) in respect of letters of credit and bankers' acceptances, (f) for Contractual Obligations relating to interest rate protection, swap agreements and collar agreements, and (g) in the nature of Guarantees of the obligations described in clauses (a) through (f) above of any other Person.

"Disclosure Letter" means the letter dated as of the date of this Agreement written and delivered by or on behalf of the Seller to the Purchaser, in the form reasonably agreed upon by the Parties.

"Effective Date" is defined in the Preamble.

"Enforceable" means, with respect to any Contractual Obligation stated to be enforceable by or against any Person, that such Contractual Obligation is a legal, valid and binding obligation of such Person enforceable by or against such Person in accordance with its terms, except to the extent that enforcement of the rights and remedies created thereby is subject to bankruptcy, insolvency, reorganization, moratorium, and other similar laws of general application affecting the rights and remedies of creditors and to general principles of equity (regardless of whether enforceability is considered in a proceeding in equity or at law).

"Environmental Law" means all applicable statutes and subordinate legislation and other national, international or European Union laws, common laws, guidance notes, or codes of practice insofar as they relate to or apply to health, safety or environmental matters, from time to time, including those Legal Requirements relating to any natural or artificial substances or materials (whether solid, liquid, gas or otherwise and whether alone or in combination with any other substance) capable of causing harm to human health and/or the environment, including, for the avoidance of doubt, noise, light, radiation, and vibration.

"Equity Interests" means (a) any capital stock, share, partnership or membership interest, unit of participation, or other similar interest (however designated) in any Person and (b) any option, warrant, purchase right, conversion right, exchange rights, or other Contractual Obligation which would entitle any Person to acquire any such interest in such Person or otherwise entitle any Person to share in the equity, profit, earnings, losses, or gains of such Person (including stock appreciation, phantom stock, profit participation, or other similar rights).

"Escrow Agent" is defined in Section 3.3.

"Escrow Agreement" is defined in Section 3.3.

"Escrowed Shares" is defined in Section 3.3.

"Estimated Closing Balance Sheet" is defined in Section 2.6.

"Estimated Closing Statement" is defined in Section 2.6.

"Exchange Act" means the U.S. Securities Exchange Act of 1934.

"Excluded Assets" is defined in Section 2.2.

"Excluded Liabilities" is defined in Section 2.4.

"Facility Agreement" means the facility agreement between Purchaser and the Seller dated December 23, 2008, as amended and supplemented from time to time.

"FDA" is defined in Section 4.16(b)(ii).

"FDA Fraud Policy" is defined in Section 4.16(b)(vi).

"FDCA" is defined in Section 4.16(b)(ii).

"Filing Deadline" is defined in Section 7.11(a).

"FRS" means a Financial Reporting Standard issued by the Accounting Standards Board.

"GAAP" means generally accepted accounting principles in the United States as in effect from time to time.

"GMP" is defined in Section 4.16(b)(ii).

"Governmental Authority" means any federal, state, local, or foreign government (or political subdivision thereof), any local, state, national, or multinational organization or authority, any authority, agency or commission entitled to exercise any administrative, executive, judicial, legislative, police, regulatory, or taxing authority or power, any court or tribunal (or any department, bureau or division thereof), or any arbitrator or arbitral body.

"Governmental Order" means any order, writ, judgment, injunction, decree, stipulation, ruling, determination, or award entered by or with any Governmental Authority that is binding on any Person or any of its property under any Legal Requirement.

"Group" has the meaning given to it in Section 13(d)(3) of the Exchange Act.

"Guarantee" means, with respect to any Person, (a) any guarantee of the payment or performance of, or any contingent obligation in respect of, any Debt or other Liability of any other Person, (b) any other arrangement whereby credit is extended to any obligor (other than such Person) on the basis of any promise or undertaking of such Person (i) to pay the Debt or other Liability of such obligor, (ii) to purchase any obligation owed by such obligor, (iii) to purchase or lease assets under circumstances that are designed to enable such obligor to discharge one or more of its obligations, or (iv) to maintain the capital, working capital,

solvency, or general financial condition of such obligor, and (c) any liability as a general partner of a partnership or as a venturer in a joint venture in respect of Debt or other obligations of such partnership or venture.

"Half-Yearly Report" means the condensed set of unaudited financial statements in the half-yearly report of the Seller Group for the six months ended on the Half-Yearly Report Date comprising a consolidated income statement, a consolidated statement of changes in equity and a consolidated cash flow statement and related explanatory notes.

"Half-Yearly Report Date" means June 30, 2008.

"IFRS" means an International Accounting Standard or an International Financial Reporting Standard issued by the International Accounting Standards Board and to any related interpretation by the Standing Interpretations Committee or its successor, the International Financial Reporting Interpretations Committee.

"Inbound IP Agreements" is defined in Section 4.15(b).

"Indemnification Limit" is defined in Section 11.2.

"Indemnification Threshold" is defined in Section 11.2.

"Indemnified Party" means, with respect to any Indemnity Claim, the party asserting such claim under Section 11.1 or 11.3, as the case may be.

"Indemnifying Party" means, with respect to any Indemnity Claim, the party under Section 11.1 or 11.3, as the case may be, against whom such claim is asserted.

"Indemnity Claim" means a claim for indemnity under Section 11.1 or 11.3.

"Intellectual Property" means any and all of the following in any country: Copyrights, Patents, Trademarks, domain name registrations, moral rights, publicity rights, Trade Secrets, know how rights, software (including source code and object code), data or other exclusivity rights, all inventions whether or not patentable, and any other intellectual property rights or intangible assets of any kind or nature whether owned, licensed or otherwise held.

"Inter-Company Debt" means all Debt obligations between either the Seller or Stem Cell Sciences LLC and the Acquired Group.

"IP Agreements" is defined in Section 4.15(b).

"ITEPA" is defined in Section 4.18(c).

"Legal Requirement" means, with respect to any Person, any federal, state, local, or foreign law, statute, standard, ordinance, code, rule, regulation, resolution or promulgation, judicial interpretation, or any Governmental Order, including any rules or requirements of the European Union, or any license, franchise, permit, or similar right granted under any of the foregoing, or any similar provision having the force or effect of law applicable to such Person or

any of such Person's property, assets, officers, directors, employees, consultants, agents, Affiliates, or Representatives.

"Liability" means, with respect to any Person, any liability or obligation of such Person whether known or unknown, whether asserted or unasserted, whether determined, determinable or otherwise, whether absolute or contingent, whether accrued or unaccrued, whether liquidated or unliquidated, whether incurred or consequential, whether due or to become due and whether or not required under GAAP or IFRS, as applicable, to be accrued on the financial statements of such Person.

"Lien" means any mortgage, pledge, lien, security interest, charge, Claim, condition, out-bound license, covenant not to sue, option, right of first offer or refusal, buy/sell agreement, equitable interest, encumbrance, restriction on transfer, conditional sale or other title retention device or arrangement (including a capital lease), transfer for the purpose of subjection to the payment of any Debt, or restriction on the creation of any of the foregoing or any other restriction or covenant with respect to, or condition governing the use, construction, transfer, receipt of income or exercise of any other attribute of legal or equitable ownership, whether relating to any property or right or the income or profits therefrom; *provided*, *however*, that the term "Lien" will not include (i) statutory liens for Taxes to the extent that the payment thereof is not in arrears or otherwise due, (ii) encumbrances in the nature of zoning restrictions, easements, rights or restrictions of record on the uses of real property if the same do not detract from the value of the property encumbered thereby or impair the use of such property in the Business as currently conducted, (iii) statutory or common law liens to secure landlords, lessors or renters under leases or rental agreements confined to the premises rented to the extent that no payment or performance under any such lease or rental agreement is in arrears or is otherwise due, (iv) deposits or pledges made in connection with, or to secure payment of, worker's compensation, unemployment insurance, old age pension programs mandated under applicable laws or other social security regulations, and (v) statutory or common law liens in favor of carriers, warehousemen, mechanics and materialmen, statutory or common law liens to secure claims for labor, materials or supplies and other like liens, which secure obligations to the extent that payment thereof is not in arrears or otherwise due in the case of (i) - (v), which have been incurred in the Ordinary Course of Business.

"Losses" is defined in Section 11.1.

"Management Accounts" means the unaudited accounts of the Acquired Group and the unaudited consolidated accounts of the Seller and its Subsidiaries for the period from the Half-Yearly Report Date to January 31, 2009 (comprising in each case a balance sheet and income statement or, as the case may be, a consolidated balance sheet and consolidated income statement).

"Material Adverse Effect" means any change, event, circumstance, effect or development that, individually or in the aggregate with all other changes, events, circumstances, effects or developments that exists on the date of determination of the occurrence of a Material Adverse Effect, has had or is reasonable likely to have a material adverse effect on (a) the business, assets, liabilities, condition (financial or other) or results of operations of the Acquired Group, taken as a whole, (b) the ability of the Seller to consummate the Contemplated Transactions or

(c) the ability of Purchaser to operate the Business immediately after the Completion, but excluding, in the case of clause (a), any change(s), event(s), circumstance(s), effect(s) or development(s) concerning general financial, market or economic conditions (in each case to the extent that the Acquired Group is not disproportionately adversely affected).

"Off-the-Shelf Software" means software, other than open source software, obtained from a Third Party, whether run on the Acquired Group's systems or accessed on an application service provider basis, (i) on general commercial terms and which continues to be widely available on such commercial terms, (ii) which is not distributed with or incorporated in any of the Acquired Products or services, (iii) which is used for business infrastructure or other internal purposes, and (iv) was licensed for fixed payments of less than US$25,000 in the aggregate or annual or periodic payments of less than US$25,000 per year.

"OFT" means the Office of Fair Trading of the United Kingdom.

"Operating Subsidiaries" means, collectively, Stem Cell Sciences Australia (Pty) Ltd and Stem Cell Sciences (UK) Limited.

"Ordinary Course of Business" means an action taken by any Person in the ordinary course of such Person's business which is consistent with the past customs and practices of such Person (including past practice with respect to quantity, amount, magnitude, and frequency).

"Ordinary Shares" means Ordinary Shares of 1 pence each in the capital of the Seller, each of which carries *pari passu* voting rights.

"Organizational Documents" means, with respect to any Person (other than an individual), (a) the memorandum of association, articles of association or certificate of incorporation or organization of such Person and any other similar documents adopted or filed in connection with the creation, formation or organization of such Person and (b) all bylaws, voting agreements and similar documents, instruments or agreements relating to the organization or governance of such Person, in each case, as amended or supplemented.

"Outbound IP Agreements" is defined in Section 4.15(b).

"Party" means either the Seller or the Purchaser and their permitted successors or assigns, respectively; and the term "Parties" refers to both of them together.

"Patents" means (a) all national, regional and international patents and patent applications, including provisional patent applications, (b) all patent applications filed either from such patents, patent applications or provisional applications or from an application claiming priority from any of the foregoing, including divisionals, continuations, continuations-in-part, provisionals, converted provisionals, and continued prosecution applications and any and all rights to claim priority from any of the foregoing, (c) any and all patents that have issued or in the future issue from the foregoing patent applications ((a) and (b)), including utility models, petty patents, design patents, and certificates of invention, (d) any and all extensions or restorations by existing or future extension or restoration mechanisms, including revalidations, reissues, re-examinations, and extensions (including any supplementary protection certificates and the like) of the foregoing patents or patent applications ((a), (b) and (c)), and (e) any similar

rights, including so-called pipeline protection, or any importation, revalidation, confirmation, or introduction patent or registration patent or patent of additions to any such foregoing patent applications and patents.

"Permits" means, with respect to any Person, any license, franchise, permit, consent, approval, right, privilege, certificate, or other similar authorization issued by, or otherwise granted by, any Governmental Authority or any other Person to which, or by which, such Person is subject or bound or to which, or by which, any property, business, operation, or right of such Person is subject or bound.

"Permitted Liens" is defined in Section 2.1.

"Person" means any individual or corporation, association, partnership, limited liability company, joint venture, joint stock or other company, business trust, trust, organization, Governmental Authority, or other entity of any kind.

"Post-Completion Tax Period" means any Tax Period beginning after the Completion Date and that portion of a Straddle Period beginning after the Completion Date.

"Pre-Completion Tax Period" means any Tax Period ending on or before the Completion Date and the portion of any Straddle Period ending on the Completion Date.

"Properties" means (a) Units 13 and 14, Meditrina, Babraham Research Campus, Cambridge, England; (b) Minerva Building, Babraham Research Campus, Cambridge, England and (c) Level 2 of Building 75 at the Strip at Monash University, Clayton, Victoria, Australia.

"Prospectus" is defined in Section 7.11(b)(i).

"Purchaser" is defined in the Preamble.

"Purchaser Common Stock" means the common stock, par value US$.01 per share, of Purchaser.

"Purchaser Drop Dead Date" is defined in Section 10.1(b).

"Purchaser Shares" is defined in Section 2.5.

"Purchaser Indemnified Person" is defined in Section 11.1.

"Quality System Regulations" is defined in Section 4.16(b)(ii).

"Records" is defined in Section 3.4(m).

"Registered Intellectual Property" is defined in Section 4.15(a).

"Registration Period" is defined in Section 7.11(a).

"Registration Statement" is defined in Section 7.11(a).

"Regulation S" is defined in Section 4.34.

"Relevant Benefits" is defined in Section 4.19.

"Representative" means, with respect to any Person, any director, officer, employee, agent, consultant, advisor, or other representative of such Person, including legal counsel, accountants and financial advisors.

"Required Effective Date" is defined in Section 7.11(a).

"Required Stockholder Vote" is defined in Section 4.3(d).

"Restricted Territories" means: (a) the United Kingdom, the Channel Islands, the Isle of Man, and the Republic of Ireland; (b) Australia; (c) the United States; (d) Japan and the rest of Asia east of Pakistan; and (e) any other country in which any company in the Acquired Group carries on business at the time of Completion.

"Retained Agreements" is defined in Section 2.2(c).

"SEC" is defined in Section 5.10.

"SEC Reports" is defined in Section 5.10.

"Second Facility Agreement" is defined in Section 7.13.

"Securities Act" means the U.S. Securities Act of 1933.

"Seller" is defined in the Preamble.

"Seller Drop Dead Date" is defined in Section 10.1(c).

"Seller Group" means the Seller and its direct and indirect Subsidiaries from time to time, or any of them.

"Seller Indemnified Person" is defined in Section 11.3.

"Seller's Knowledge" and similar phrases means the actual knowledge, after reasonable investigation and inquiry, of each or any of Alastair Riddell, Giorgio Reggiani, Timothy Allsopp, George Murphy and George Schlich.

"Seller Security Holders" means the holders of Equity Interests in the Seller.

"Significant Security Holders" means such Persons as hold (or otherwise exercise the power to exercise the voting rights attaching to), collectively, not less than 30% of the Seller's Ordinary Shares.

"Stockholders Meeting" means a general meeting of the Seller's stockholders for the purpose of approving and adopting the Acquisition and the Contemplated Transactions.

"Stock Transfer Forms" means the stock transfer forms by which the Seller's interest in the Acquired Shares will be transferred to the Purchaser, which will be in the form of Exhibit A1-A2.

"Straddle Period" means any Tax Period beginning before and ending after the Completion Date.

"Subsidiary" means, with respect to any specified Person, any other Person of which such specified Person will, at the time, directly or indirectly through one or more Subsidiaries, (a) own at least 50% of the outstanding capital stock (or other shares of beneficial interest) entitled to vote generally, (b) hold at least 50% of the partnership, limited liability company, joint venture, or similar interests or (c) be a general partner, managing member or joint venturer.

"Stem Cell Sciences Australia" means Stem Cell Sciences (Australia) Pty Limited, a private limited company registered in Australia (Registered Number ACN 063 293 130) having its Registered Office at Level 2 of Building 75 at the Strip at Monash University, Clayton, Victoria, Australia, certain details of which are set out in Schedule 1.1(a).

"Stem Cell Sciences LLC" means Stem Cell Sciences LLC, a California limited liability corporation with its principal office at 845 Oak Grove Avenue, Suite 220, Menlo Park, California 94025.

"Stem Cell Sciences UK" means Stem Cell Sciences (UK) Limited, a private limited company registered in Scotland (Registered Number SC209852) having its Registered Office at Saltire Court, 20 Castle Terrance, Edinburgh, Lothian EH1 2 ED, United Kingdom certain details of which are set out in Schedule 1.1(a).

"Tax" or "Taxes" means (a) any and all federal, state, local, or foreign income, gross receipts, license, payroll, employment, excise, severance, stamp, occupation, premium, windfall profits, environmental, customs duties, capital stock, franchise, profits, withholding, social security (or similar, including FICA), unemployment, disability, real property, personal property, sales, use, transfer, registration, value added, alternative or add-on minimum, estimated, or escheat liability, or other tax of any kind or any charge of any kind in the nature of (or similar to) taxes whatsoever, including any interest, penalty, or addition thereto, whether disputed or not and (b) any liability for the payment of any amounts of the type described in clause (a) of this definition as a result of being a member of an affiliated, consolidated, combined, or unitary group for any period, as a result of any tax sharing or tax allocation agreement, arrangement or understanding, or as a result of being liable for another person's taxes as a transferee or successor, by contract or otherwise.

"Tax Document" is defined in Section 12.3.1.

"Tax Period" means any period prescribed by any Governmental Authority for which a Tax Return is required to be filed or a Tax is required to be paid.

"Tax Return" means any return, declaration, report, claim for refund or information return or statement relating to Taxes supplied or required to be supplied to a Taxing Authority, including any schedule or attachment thereto, and including any amendment thereof.

"Taxing Authority" means any Governmental Authority having jurisdiction with respect to any Tax.

"Technical Confidential Information" means information not in the public domain, which any Representative of the Seller or any of its Subsidiaries received or obtained at any time by reason of, or in connection with, his or her relationship with either the Acquired Group or the Business, which is of a technical nature, including: the Acquired Group's scientific data; clinical and pre-clinical information; computer software and passwords; Trade Secrets; and Technology.

"Technology" means all inventions, works, discoveries, innovations, information (including ideas, research and development, know-how, formulas, methods, processes and techniques, methods, data, clinical trial data, clinical trial protocols, designs, drawings, specifications, customer and supplier lists, pricing and cost information, business and marketing plans and proposals, documentation and manuals), cell lines, plasmids encoding any DNA sequence, biologic or chemical materials, or other compositions of matter, computer software, firmware, computer hardware, devices, electronic, electrical and mechanical equipment and all other forms of technology, including improvements, modifications, works in process, derivatives or changes, whether tangible or intangible, embodied in any form, whether or not protectable or protected by patent, copyright, mask work right, trade secret law or otherwise, and all documents and other materials recording any of the foregoing.

"Termination Date" is defined in Section 10.1.

"Third Party" means any Person other than a Party or their respective Subsidiaries.

"Third Party Claim" is defined in Section 11.6(a).

"Trademarks" means any word, name, symbol, color, designation or device or any combination thereof for use in the course of trade, including any trademark, registered trademark, application for registration of trademark, service mark, trade dress, brand mark, trade name, registered trade name, application for registration of trade name, brand name, domain name, logo, or business symbol.

"Trade Secrets" means all confidential information and trade secrets such as confidential know-how, inventions, discoveries, improvements, concepts, ideas, methods, processes, designs, plans, schematics, drawings, formulae, technical data, specifications, research and development information, technology and product roadmaps, and data bases.

"Transaction Expenses" is defined in Section 7.8.

"Transfer Taxes" is defined in Section 12.1.

"Valuation Methodology" means, for a particular date, (i) the 10-day volume-weighted average price per share of Purchaser Common Stock on the NASDAQ Global Market or other trading market where such security is listed or traded as reported by Bloomberg Financial Markets (or a comparable reporting service of national reputation selected by the Purchaser and reasonably acceptable to the Seller if Bloomberg Financial Markets is not then reporting sales prices of such security) (collectively, "Bloomberg") for the ten (10) consecutive trading days

immediately preceding the applicable date, or (ii) if the NASDAQ Global Market is not the principal trading market for the shares of Purchaser Common Stock, the 10-day volume-weighted average price reported by Bloomberg on the principal trading market per share of Purchaser Common Stock during the same period, or, if there are no volume-weighted average prices for such period, the last sales price reported by Bloomberg for such period, or (iii) if neither of the foregoing applies, the last sales price of such security in the over-the-counter market on the pink sheets or bulletin board for such security as reported by Bloomberg, or if no sales price is so reported for such security, the last bid price of such security as reported by Bloomberg or (iv) if fair market value cannot be calculated as of such date on any of the foregoing bases, the fair market value will be as determined by the board of directors of the Purchaser in the exercise of its good faith judgment.

"Voting Agreement" means an irrevocable voting agreement entered into by any of the Significant Security Holders in the form attached hereto as Exhibit B.

"Working Capital" means (i) current assets net of any cash, cash equivalents and short-term or other marketable investments, minus (ii) current liabilities net of any Inter-Company Debt, in each case determined in a manner consistent with that adopted in the preparation of the Accounts.

"Working Capital Shortfall" is defined in Section 2.6.

"Working Capital Target" means £(200,000).

1.2. In this Agreement (unless the context requires otherwise):

(a) references to a Section, Clause, Article, Exhibit, or Schedule means a section, clause, article, exhibit, or schedule of this Agreement, unless another document is specified;

(b) any reference to this Agreement includes the Introduction, Exhibits, Schedules, and Disclosure Letter, and includes any amendments to the Agreement or to the Introduction, Exhibits, Schedules, and/or Disclosure Letter that the Parties may duly enter into, from time to time after the Effective Date, in accordance with Section 13.3;

(c) any reference to any statute, statutory provision or subordinate legislation is to be construed as a reference to the same as it may have been, or may from time to time be, amended, modified, consolidated, or re-enacted and in force, and any reference to a statute or statutory provision includes any subordinate legislation made under it;

(d) references to a particular Person include such Person's successors and assigns to the extent not prohibited by this Agreement;

(e) any gender includes a reference to the other genders;

(f) words in the singular or plural form include the plural and singular form, respectively;

(g) “directly or indirectly” means either alone or jointly with any other Person and whether on his own account or in partnership with another or others or as the holder of any interest in or as officer, employee, or other Representative of, or consultant to, any other Person;

(h) any phrase introduced by the terms “including,” “include,” “in particular,” or a similar expression will be construed as illustrative and will not limit the sense of the words preceding those terms, unless preceded by the word “not”;

(i) any reference to something being “in writing” or “written” will include a reference to that thing being produced by any legible and non-transitory substitute for writing (including in electronic form) or partly in one manner and partly in another; and

(j) where it is necessary to determine whether a monetary limit or threshold set out in this Agreement has been reached or exceeded (as the case may be) and the value of the relevant claim or any of the relevant claims is expressed in a currency other than U.S. dollars, the value of each such claim will be translated into U.S. dollars at the prevailing exchange rate applicable to that amount of that non-U.S. dollar currency by reference to middle-market rates quoted by the Royal Bank of Scotland plc immediately before close of business in London on the date of receipt by the relevant Person(s) of written notification in accordance with this Agreement of the existence of such claim, or if such day is not a Business Day, on the Business Day immediately preceding such day.

1.3. The Section, Clause, Article, Exhibit, and Schedule headings in this Agreement are included for convenience only and do not affect the interpretation of this Agreement.

2. THE ACQUISITION.

2.1. Purchase and Sale of the Acquired Assets. The Seller agrees to sell, transfer, convey, assign, and deliver to Purchaser with full title guarantee, and Purchaser agrees to purchase from the Seller, at the Completion and subject to and upon the terms and conditions contained herein, free and clear of any Liens other than the Liens set forth on Schedule 2.1 (the “Permitted Liens”) (and in the case of the Assigned Agreements, subject to the terms of the Assigned Agreements, the Assignment and Assumption Agreements and the provisions of Section 2.8), all of the Seller’s right, title and interest in, to and under all of the following assets, properties and rights (whether tangible or intangible, whether real, personal or mixed, whether fixed, contingent or otherwise and including the Seller’s Intellectual Property rights contained therein or related thereto) (collectively, the “Acquired Assets”):

(a) all of the Acquired Shares, with effect from and including the Completion Date to the intent that as from that date all rights and advantages accruing to the Acquired Shares, including any dividends or distributions declared or paid on the Acquired Shares after that date, will belong to the Purchaser;

(b) all Inter-Company Debt payable to the Seller or Stem Cell Sciences LLC;

(c) all goodwill and going concern value of the Business, insofar as the same is held by the Seller (as opposed to the Acquired Group);

(d) the written contracts, which will be assigned to Purchaser effective as of the Completion Date, set forth on Schedule 2.1(d) (collectively, the "Assigned Agreements");

(e) the Seller's rights and obligations under any other grants, collaborations or material agreements to the extent comprising (or to the extent used in the operation of) the Business; and

(f) all other assets, properties and rights of the Seller to the extent comprising (or to the extent used in the operation of) the Business, other than the Excluded Assets.

The Parties acknowledge that Purchaser is acquiring, by virtue of its acquisition of the Acquired Shares, an indirect ownership interest (as stockholder) over the assets, properties, goodwill and rights of the Acquired Group.

2.2. Excluded Assets. The Seller hereby retains and will not transfer, assign, convey or otherwise transfer to Purchaser any of the following assets, properties or rights (the "Excluded Assets"):

(a) all of the outstanding Equity Interests of Stem Cell Sciences LLC, a California limited liability company;

(b) cash, cash equivalents and short-term or other marketable investments of the Seller Group;

(c) the written contracts, which will be retained (and, if the Seller so elects, may be hereafter terminated) by the Seller, set forth on Schedule 2.2(c) (collectively, the "Retained Agreements"); and

(d) the statutory books, registers, minutes, Tax records, accounts, schedules of creditors and other administrative records (including relevant correspondence, documents, files and memoranda) of the Seller (as distinct from the Records of the Acquired Group).

2.3. Assumed Liabilities. At the Completion, Purchaser will assume (and from and after the Completion Purchaser will satisfy, perform and otherwise discharge when due and, on the terms and subject to the conditions of Section 11, will hold the Seller harmless with respect to) in accordance with their respective terms only, the following specified obligations and liabilities of the Seller (collectively, the "Assumed Liabilities"), but no others:

(a) obligations and any other Liabilities accruing after the Completion Date (i.e., post-Completion Liabilities) under any of the Assigned Agreements;

(b) the Liabilities accruing after the Completion Date (i.e., post-Completion Liabilities) in respect of the Liabilities of the Acquired Group;

(c) the Liabilities accruing after the Completion Date (i.e., post-Completion Liabilities) in respect of the Liabilities arising in connection with the Acquired Assets; and

(d) any Liability of the Seller Group in respect of the Facility Agreement or the Second Facility Agreement.

Purchaser is not assuming, and will not be deemed to have assumed by virtue of acquiring the Acquired Assets or the Assumed Liabilities, any obligations or liabilities of the Seller or Stem Cell Sciences LLC other than the Assumed Liabilities specifically described above. No assumption by Purchaser of any of the Assumed Liabilities will relieve, or be deemed to relieve, the Seller or Stem Cell Sciences LLC from any Contractual Obligation or Liability under this Agreement with respect to any representations or warranties made by the Seller to Purchaser. Notwithstanding the foregoing, the Parties acknowledge that Purchaser's acquisition of the Acquired Shares at Completion will make it the sole stockholder of the Acquired Group.

2.4. Excluded Liabilities. Notwithstanding anything in this Agreement to the contrary, Purchaser is not assuming (and the Seller will satisfy and perform when due and, on the terms and subject to the conditions of Section 11, will hold Purchaser harmless with respect to) any Liabilities of either the Seller or Stem Cell Sciences LLC other than the Assumed Liabilities (the "Excluded Liabilities"). For the avoidance of doubt, the Excluded Liabilities include:

(a) any Liability of either the Seller or Stem Cell Sciences LLC for or in respect of any and all Taxes (or the non-payment thereof) of either the Seller or Stem Cell Sciences LLC (whether incurred on, prior to or subsequent to Completion) and any Liability for any and all Taxes levied with respect to the Acquired Assets that are allocated to the Seller pursuant to Section 12.4;

(b) any Liability of either the Seller or Stem Cell Sciences LLC for or in respect of Debt;

(c) any Liability of either the Seller or Stem Cell Sciences LLC to indemnify any Person by reason of the fact that such Person is or was a director, officer, employee, stockholder, or agent of the Seller or is or was serving at the request of the Seller as a partner, trustee, director, officer, employee, or agent of another entity;

(d) any Liability of either the Seller or Stem Cell Sciences LLC arising as a result of, or out of any Claim or Action pertaining to, or relating in any way to, either the Seller or Stem Cell Sciences LLC initiated at any time, whether or not described in any Schedule hereto, including any Liability of either the Seller or Stem Cell Sciences LLC arising from any Action initiated at any time in respect

of anything done, suffered to be done or omitted to be done by either the Seller or Stem Cell Sciences LLC or any of their respective Representatives or any holder of any of Seller's Equity Interests;

(e) any Liability of the Seller arising under or incurred in connection with the making or performance of this Agreement, the Ancillary Agreements or any of the other agreements contemplated hereby or thereby;

(f) any Liability of the Seller arising out of any employee benefits or the termination of any employee benefits;

(g) any Liability of the Seller of any kind (including as a result of the sale of the Acquired Assets or as a result of the termination of employment by the Seller of employees or other labor claims) to employees of the Seller or in respect of payroll taxes for employees of the Seller, including any Liabilities of the Seller arising under or with respect to any applicable Legal Requirements respecting employment and employment practices, terms and conditions of employment, occupational safety and health, worker classification and wages and hours, in each case, with respect to its current and former employees, directors, officers, consultants, and independent contractors;

(h) any Liability of the Seller under or with respect to any lease, contract, arrangement, commitment, or Contractual Obligation (other than post-Completion Liabilities under the Assigned Agreements);

(i) any Liability of either the Seller or Stem Cell Sciences LLC under any bulk sales law of any jurisdiction, under any common law doctrine of de facto merger or successor liability or otherwise by operation of law;

(j) any Liability of either the Seller or Stem Cell Sciences LLC in respect of Losses, Claims or Legal Requirements incurred under or with respect to any Environmental Law; and

(k) any Liabilities of either the Seller or Stem Cell Sciences LLC which are undisclosed or contingent or which relate to or arise from the breach of any Contractual Obligation or violation of any Legal Requirement prior to or at the Completion.

2.5. Purchase Price. As consideration for the Acquisition, the Purchaser agrees to:

2.5.1. at Completion, waive all right, title and interest (including, without limitation, all right to repayment of all loan monies and accrued interest) in respect of all monies outstanding (and all other Liabilities of the Seller) under the Facility Agreement and the Second Facility Agreement (and to release all liens, charges and other security interests granted in respect thereof);

2.5.2. at Completion, issue to the Seller an aggregate amount of 2,650,000 shares of Purchaser Common Stock, less the Working Capital Shortfall, if any (the "Purchaser Shares"). Upon Completion, the Purchaser Shares will be duly authorized, fully paid and nonassessable, and will be issued as follows:

(a) 2,120,000 shares of Purchaser Common Stock to be issued to the Seller, less the Working Capital Shortfall, if any; and

(b) 530,000 shares of Purchaser Common Stock to be issued to the Escrow Agent in accordance with Section 3.3.

2.5.3. In the event of any issuances of Purchaser Common Stock pursuant to any stock split, dividend or distribution payable in additional shares of capital stock to holders of Purchaser Common Stock subsequent to the Effective Date and prior to the issuance of the Purchaser Shares at Completion, the number of Purchaser Shares will appropriately be adjusted.

2.6. Minimum Working Capital.

(a) Estimated Balance Sheet. The Seller will prepare or cause to be prepared, and delivered to the Purchaser not later than five Business Days prior to the expected Completion Date, an estimated consolidated balance sheet of the Acquired Group as of immediately prior to the Completion disclosing the material assets and liabilities of the Acquired Group and the material financial commitments in existence as at the Completion Date (the "Estimated Closing Balance Sheet"), together with a written statement setting forth in reasonable detail its estimate of the Working Capital as of immediately prior to the Completion as reflected on the Estimated Closing Balance Sheet (the "Estimated Closing Statement"). The Estimated Closing Balance Sheet and the Estimated Closing Statement will be prepared with reasonable skill and care by the Seller and in a manner consistent with that adopted in the preparation of the Accounts and will be updated by the Seller immediately prior to the Completion.

(b) Adjustment to Purchase Price. If the Working Capital reflected on the Estimated Closing Statement is less than the Working Capital Target, then number of Purchaser Shares will be reduced by the amount of such shortfall (the "Working Capital Shortfall") on a dollar-for-dollar basis, valuing the shares of Purchaser Common Stock in accordance with the Valuation Methodology as of the Completion Date.

2.7. Withholding. Purchaser will be entitled to deduct and withhold Taxes from any amounts payable or otherwise deliverable pursuant to this Agreement if such withholding

is required under the Code or any provision of applicable Legal Requirements. To the extent such amounts are so deducted or withheld and paid to the appropriate Taxing Authority, such amounts will be treated for all purposes under this Agreement as having been paid to the Person to whom such amounts would otherwise have been paid.

2.8. Assigned Agreements. If and to the extent the consent or approval of any third party is required for the assignment or transfer of any Assigned Agreement then:

(a) the Parties will use commercially reasonable efforts to obtain the consent or approval of such third party prior to, but conditional on, Completion (including, without limitation, the entering into of any agreement, assurance or guarantee by the Purchaser reasonably required by such third party);

(b) if and to the extent that any such consent or approval is not obtained prior to Completion (including, without limitation, if any third party signature is required to any Assignment and Assumption Agreement(s)), the Parties will nevertheless proceed to Completion and will thereafter continue to use commercially reasonable efforts to obtain the consent or approval of such third party as soon as reasonably practicable (including, without limitation, the entering into of any agreement, assurance or guarantee by the Purchaser reasonably required by such third party) but, conditional on Completion, until such time as such assignment is effective: (i) the Seller will not undertake any action in breach of the terms of such Assigned Agreement other than pursuant to this Section (b) or otherwise with the prior written consent of the Purchaser; (ii) the Purchaser will procure that the Acquired Group will perform and satisfy the obligations and Liabilities of the Seller under such Assigned Agreement; (iii) the Seller will transfer and pay to the Purchaser all consideration and other sums (if any) received by the Seller under such Assigned Agreement subsequent to Completion and otherwise take such further actions as may be reasonably necessary or desirable (subject to applicable Laws and the terms of the Assigned Agreement) in order to confer the benefits of the Seller under such Assigned Agreement on the Purchaser; and (iv) the Seller will take such further action as may be reasonably required by the Purchaser in relation to the enforcement of Purchaser's rights under such Assigned Agreement, subject to the Purchaser indemnifying and holding the Seller harmless in respect of any Liability arising in connection with any action so taken by the Seller (and the Seller will be entitled to require that the Purchaser provide payment in advance in respect of any such Liability which may so arise as a condition precedent to the Seller undertaking any such action).

3. THE EFFECTIVE DATE AND COMPLETION.

3.1. Obligations of the Parties on the Effective Date. On the Effective Date:

(a) The Seller will deliver, or procure to be delivered to Purchaser, the following:

(i) this Agreement, duly executed by the Seller;

(ii) the Disclosure Letter, duly executed by the Seller;

(iii) minutes of the meeting of the board of directors of Seller approving the entry into this Agreement, the delivery of the Disclosure Letter and the approval of the Contemplated Transactions;

(iv) the Voting Agreements (to the extent that such have been delivered to the Seller by the Significant Security Holders on or prior to the Effective Date), each duly executed by the Significant Security Holder which is a party thereto;

(v) the Second Facility Agreement, duly executed by the Seller; and

(vi) .

(b) The Purchaser will deliver, or procure to be delivered to Seller, the following:

(i) this Agreement, duly executed by the Purchaser;

(ii) a copy of the resolutions adopted by the board of directors of Purchaser approving the entry into this Agreement and the approval of the Contemplated Transactions; and

(iii) the Second Facility Agreement, duly executed by the Purchaser.

3.2. Completion. The completion of the Acquisition (the "Completion") will take place on a date to be specified by the Seller and Purchaser, which will be no later than the second Business Day after satisfaction or waiver of all of the Conditions set forth in Sections 8 and 9, at the offices of Macfarlanes LLP, 20 Cursitor Street, London, England EC4A 1LT, unless another date or place is agreed to in writing by the Parties.

3.3. Escrow. At the Completion, 530,000 shares of Purchaser Common Stock (the "Escrowed Shares") will be delivered by Purchaser to JPMorgan Chase Bank, N.A., as escrow agent (the "Escrow Agent"), pursuant to the provisions of an escrow agreement in substantially the form attached as Exhibit C hereto, subject to any amendments to such form requested by the Escrow Agent and mutually agreed to by the Purchaser and Seller (the "Escrow Agreement"). The Escrow Agreement will be entered into prior to the Completion Date, by and among the Purchaser, the Seller and the Escrow Agent, and will provide Purchaser with recourse against the Escrowed Shares held in escrow by the Escrow Agent with respect to Losses and the Seller's indemnification obligations under Section 11, subject to the terms and conditions set forth in the Escrow Agreement and in Section 11. The Escrowed Shares (or any portion thereof) will be distributed to the Seller at the times, and upon the terms and conditions, set forth in the Escrow Agreement.

3.4. Completion Obligations of the Seller. At the Completion, the Seller will deliver or procure to be delivered to the Purchaser, if such is not already in the Purchaser's possession:

(a) duly executed Stock Transfer Forms in favor of the Purchaser in respect of the Acquired Shares;

(b) the original certificates for the Acquired Shares;

(c) any other document which may reasonably be required to give good title to the Acquired Shares or which may be necessary to enable the Purchaser to procure the registration of the Acquired Shares in the name of the Purchaser or its nominee(s);

(d) the compliance certificate, as described in Section 8.4;

(e) a power of attorney in the form set out in Exhibit D, pursuant to which the Seller will confer on the Purchaser all right to vote and otherwise exercise rights attaching to, and received dividends and distributions made in respect of, the Acquired Shares pending registration of Acquired Shares in the statutory books of the Company;

(f) the Estimated Closing Balance Sheet and the Estimated Closing Statement;

(g) a copy of the minutes of a meeting of the directors of the Seller (certified as true by an officer of the Seller) and at which meeting the directors of the Seller approved the execution and entering into of the Ancillary Agreements to which the Seller is party, and the performance of the obligations of the Seller under such agreements (subject to the terms thereof and the conditions set out therein);

(h) a copy of a resolution passed by the stockholders of the Seller (certified as true by an officer of the Seller) and which resolution approved the Contemplated Transactions to the extent required by Rule 15 of the AIM Rules for Companies;

(i) a copy of the minutes of a meeting of the directors of the Company (in the form marked Exhibit E1 and certified as true by an officer of the Company) and at which meeting the directors of the Company approved, conditional on Completion:

(i) the transfer of the Acquired Shares by the Seller to the Purchaser is approved and, conditional on the delivery to the Company of duly executed and stamped Stock Transfer Forms, that such transfer be recorded in the statutory books of the Company and that thereupon a new share certificate be issued to the Purchaser in respect thereof;

(ii) that Martin McGlynn, Rodney Young and Ann Tsukamoto be appointed as directors of the Company;

(iii) that Ken Stratton be appointed as company secretary of the Company;

(iv) that George Koshy be appointed as assistant company secretary of the Company; and

(v) that the existing bank mandates of the Company be terminated and that the Company enter into new bank mandates authorizing Martin McGlynn, Rodney Young and Ann Tsukamoto as the new directors of the Company, Ken Stratton as the new company secretary, and George Koshy as the assistant company secretary, to have power and authority to sign checks on behalf of the Company and otherwise to give instructions to the Company's bank in relation to matters concerning the payment of monies from the Company's bank accounts;

(j) a copy of the minutes of a meeting of the directors of the Stem Cell Sciences Australia (in the form marked Exhibit E2 and certified as true by an officer of the Stem Cell Sciences Australia) and at which meeting the directors of Stem Cell Sciences Australia approved, conditional on Completion:

(i) that Martin McGlynn, Rodney Young, Ann Tsukamoto, and an Australian national to be selected by the Purchaser be appointed as directors of Stem Cell Sciences Australia;

(ii) that Ken Stratton be appointed as company secretary of Stem Cell Sciences Australia;

(iii) that George Koshy be appointed as assistant company secretary of Stem Cell Sciences Australia; and

(iv) that the existing bank mandates of Stem Cell Sciences Australia be terminated and that Stem Cell Sciences Australia enter into new bank mandates authorizing Martin McGlynn, Rodney Young and Ann Tsukamoto as the new directors of Stem Cell Sciences Australia, Ken Stratton as the new company secretary, and George Koshy as the assistant company secretary, to have power and authority to sign checks on behalf of Stem Cell Sciences Australia and otherwise to give instructions to Stem Cell Sciences Australia's bank in relation to matters concerning the payment of monies from Stem Cell Sciences Australia's bank accounts;

(k) a copy of the minutes of a meeting of the directors of the Stem Cell Sciences UK (in the form marked Exhibit E3 and certified as true by an officer of the Stem Cell Sciences UK) and at which meeting the directors of Stem Cell Sciences UK approved, conditional on Completion:

(i) that Martin McGlynn, Rodney Young and Stewart Craig be appointed as directors of Stem Cell Sciences UK;

(ii) that Ken Stratton be appointed as company secretary of Stem Cell Sciences UK;

(iii) that George Koshy be appointed as assistant company secretary of Stem Cell Sciences UK; and

(iv) that the existing bank mandates of Stem Cell Sciences UK be terminated and that Stem Cell Sciences UK enter into new bank mandates authorizing Martin McGlynn, Rodney Young and Stewart Craig as the new directors of Stem Cell Sciences UK, Ken Stratton as the new company secretary, and George Koshy as the assistant company secretary, to have power and authority to sign checks on behalf of Stem Cell Sciences UK and otherwise to give instructions to Stem Cell Sciences UK's bank in relation to matters concerning the payment of monies from Stem Cell Sciences UK's bank accounts;

(l) the common seal (if any) and statutory books (including registers and minutes books) of each member of the Acquired Group made up to the Completion Date and all certificates of incorporation and certificates of incorporation on change of name of each member of the Acquired Group;

(m) save to the extent that they are kept at the Properties, all books of account, financial and accounting records, correspondence, documents, files, memoranda and other papers relating to each member of the Acquired Group (the "Records");

(n) certificates for all the issued shares held in Stem Cell Sciences Australia and Stem Cell Sciences UK registered in the name of the Company (save to the extent already within the possession, custody or control of the Purchaser);

(o) a duly updated schedule to the license agreement dated January 31, 2006, by and between Stem Cell Sciences Australia (Pty) Ltd (f/d/b/a Stem Cell Sciences Limited) and the University of Edinburgh in a form reasonably satisfactory to Purchaser sufficient to show the license of the rat ES cell technology (pat. app. no. PCT/GB2007/002913);

(p) a license agreement between Stem Cell Sciences Australia (Pty) Ltd (f/d/b/a Stem Cell Sciences Limited) and the University of Edinburgh (in a form reasonably acceptable to the Purchaser) in respect of the license of the cancer NSC cell line (provisional application entitled "Neural Tumor Stem Cells and Methods of Use Thereof," docket no. 50037/007001);

(q) letters of resignation from office in the agreed form marked Exhibit F1 to F9 from Dr. Thomas Michael Dexter, Harry Karelis, Dr. Alastair James Riddell, Leslie Harold Webb, Timothy Eugene Allsopp, Lorna Peers, Giorgio Reggiani, Peter Mountford and Paul Bello, in each case acknowledging under seal that the writer has no claim against the Company or any of the Operating Subsidiaries for compensation for loss of office or otherwise;

(r) a copy of a letter from KPMG Audit Plc resigning their office as auditors of the Company, Stem Cell Sciences Australia and Stem Cell Sciences UK with effect from the Completion Date and in respect of the Company and Stem Cell

Sciences UK accompanied by the statement required by Companies Act 2006 section 519, with an original of such letter to be deposited at the registered office of the Company and Stem Cell Sciences UK;

(s) the Assignment and Assumption Agreements duly executed by the Seller (subject to Section 2.8); and

(t) compromise agreements between the Company and each of the individuals listed on Schedule 3.4(t) in form and substance reasonably satisfactory to the Purchaser.

3.5. Completion Obligations of the Purchaser. At the Completion, Purchaser will procure that:

(a) on the Completion Date, the Purchaser Shares (other than the Escrowed Shares) are issued to the Seller and the Escrowed Shares are issued to the Escrow Agent in accordance with Section 2.5, and within 2 Business Days of Completion there is delivered to the Seller, a share certificate issued in the name of the Seller showing the Seller to be the registered holder of the Purchaser Shares (other than the Escrowed Shares) and a share certificate issued in the name of the Escrow Agent in respect of the Escrowed Shares; and

(b) the following are delivered to the Seller, or such other person as Seller may direct:

(i) the Assignment and Assumption Agreements, duly executed by Purchaser;

(ii) a copy of the resolutions of the board of directors of the Purchaser approving the issuance of the Purchaser Shares to the Purchaser and the Escrow Agent (in such number as set forth in Section 2.5.2), the entry into the Escrow Agreement, the Assignment and Assumption Agreements and the deed of waiver and release as described in (iii) below; and

(iii) a deed of waiver and release, in a form reasonably acceptable to the Parties, duly executed by Purchaser and in respect of all right, title and interest (including, without limitation, all right to repayment of all loan monies and accrued interest) in respect of all monies outstanding (and all other Liabilities of the Seller) under the Facility Agreement and the Second Facility Agreement (and to release all liens, charges and other security interests granted in respect thereof) together with duly signed instruments of transfer in respect of the securities the subject of all liens, charges and other security interests released.

3.6. Additional Matters. With effect from Completion, the officers and directors of Purchaser are hereby authorized to execute and deliver, in the name and on behalf of the Seller, any deeds, bills of sale, assignments or assurances and to take and do, in the name and on behalf of the Seller, any other actions and things to vest, perfect or confirm of

record or otherwise in Purchaser, any and all right, title and interest in, to and under any of the Acquired Assets. Without limiting the foregoing, at and after the Completion, the Seller will, and will cause its Representatives, to execute all documents and perform all acts reasonably deemed necessary by Purchaser to evidence Purchaser's ownership of the Acquired Assets.

4. REPRESENTATIONS AND WARRANTIES BY THE SELLER.

4.1. Representations and Warranties. In order to induce the Purchaser to enter into and perform this Agreement and to consummate the Acquisition, the Seller hereby represents and warrants to the Purchaser that, except as qualified by the Disclosure Letter, the statements contained in this Section 4 are true and correct in all respect as of the Effective Date and will be true and correct in all respects as of the Completion as though made as of the Completion, except to the extent such representations and warranties are specifically made as of a particular date (in which case such representations and warranties will be true and correct as of such date). The Disclosure Letter will be arranged in schedules corresponding to the numbered and lettered sections and subsections specifically referenced in this Section 4. The disclosures in any schedule of the Disclosure Letter will qualify other sections and subsections in this Section 4 only to the extent it is reasonably clear from a reading of the disclosure that such disclosure is applicable to such other sections and subsections.

4.2. Organization.

(a) The Seller. The Seller is (i) duly organized and validly existing under the laws of the jurisdiction of its organization and (ii) duly qualified to do business in each jurisdiction set forth in the Disclosure Letter, which Schedule sets forth all jurisdictions in which the nature of the Business or the ownership, leasing or operation of the Acquired Assets makes such qualification necessary. Attached hereto as Schedule 4.2(a) are true, accurate and complete copies of the Seller's Organizational Documents as in effect as of the Effective Date. The Seller has no Subsidiaries other than the Acquired Group and Stem Cell Sciences LLC.

(b) The Acquired Group. Each member of the Acquired Group is (i) duly organized and validly existing under the laws of the jurisdiction of its organization and (ii) duly qualified to do business in each jurisdiction set forth in the Disclosure Letter, which Schedule sets forth all jurisdictions in which the nature of the Business or the ownership, leasing or operation of the Acquired Assets makes such qualification necessary. Attached hereto as Schedule 4.2(b) are true, accurate and complete copies of the Organizational Documents for each member of the Acquired Group as in effect as of the Effective Date, and, to the extent applicable, have embodied in them or annexed to them a copy of every resolution or agreement as is referred to in Companies Act 1985 section 380(4) and, in relation to resolutions passed and agreements made on or after 1 October 2007, Companies Act 2006 section 29(1), and set out in full the rights and restrictions attaching to each class of share capital of each.

(c) Statutory Books. The statutory books (including all registers and minute books) of each member of the Acquired Group have been properly kept and contain a complete and accurate record of the matters which should be dealt with in them and no notice or allegation that any of them is incorrect or should be rectified has been received by the Seller Group. All returns, particulars, resolutions and other documents required under the Companies Legislation and all other legislation to be delivered on behalf of any member of the Acquired Group to the U.K. Registrar of Companies (or to the Australian registrar of companies in respect of Stem Cell Sciences Australia) has been duly and properly made and delivered.

4.3. Power and Authorization.

(a) Contemplated Transactions. The execution, delivery and performance by the Seller of this Agreement and the consummation of the Contemplated Transactions (subject to, and in accordance with the terms and conditions of, this Agreement including, without limitation, the Required Stockholder Vote) are within the corporate power and authority of the Seller and at the Completion will have been duly authorized by all necessary action on the part of the Seller. This Agreement has been duly executed and delivered by the Seller and, assuming the due authorization, execution and delivery by Purchaser, is a legal, valid and binding obligation of the Seller, Enforceable against the Seller in accordance with its terms.

(b) Conduct of Business. Each member of the Acquired Group has all requisite corporate power and authority necessary to carry on the Business.

(c) Board Approvals. The Seller's board of directors, at a meeting duly called and held at which at least a quorum of directors were present or participating, has (i) determined that the Acquisition is expedient and for the best interests of the Seller; and (ii) duly approved and adopted this Agreement and the Contemplated Transactions (subject to, and in accordance with the terms and conditions of, this Agreement including, without limitation, the Required Stockholder Vote).

(d) Stockholder Vote. The only vote of holders of any Equity Interest of the Seller necessary to approve and adopt this Agreement and consummate the Acquisition is the consent in general meeting of the holders of Ordinary Shares in accordance with the requirements of Rule 15 of the AIM Rules for Companies (the "Required Stockholder Vote"). No approval of the holder(s) of Equity Interests in any of the Seller's Subsidiaries is required to consummate the Acquisition.

(e) Voting Agreements. The number of votes exercisable in respect of Ordinary Shares subject to Voting Agreements represents not less than 30% of all votes exercisable at the Required Stockholder Vote.

4.4. Authorization of Governmental Authorities. No action by (including any authorization, consent or approval), or in respect of, or filing with, any Governmental Authority is required for, or in connection with, the valid and lawful (a) authorization, execution, delivery and performance by the Seller of this Agreement or (b) the consummation of the Contemplated Transactions.

4.5. Noncontravention. Neither the execution, delivery and performance by the Seller of this Agreement or the Ancillary Agreements nor the consummation of the Contemplated Transactions will:

(a) violate any Legal Requirement applicable to the Seller Group;

(b) result in a breach or violation of, or default under, right to accelerate payment under or obligation to make any payment pursuant to or loss of material rights under, or modify or terminate (i) any Acquired Asset or (ii) any other Contractual Obligation of the Seller Group the breach or violation of, default under, right to accelerate payment under, obligation to make any payment pursuant to, loss of material rights under, or modification or termination of which would reasonably be expected to have a Material Adverse Effect;

(c) contravene, conflict with or result in any limitation on the right, title or interest of the Seller or of any member of the Acquired Group in or to any Registered Intellectual Property;

(d) require any action by (including any authorization, consent or approval) or in respect of (including notice to), any Person under any Contractual Obligation of the Seller Group;

(e) result in the creation or imposition of a Lien upon, or the forfeiture of, any (i) Acquired Asset or (ii) other asset upon which the creation or imposition of a Lien would reasonably be expected to have a Material Adverse Effect;

(f) result in a breach or violation of, or default under, the Organizational Documents of Seller or of any member of the Acquired Group; or

(g) cause any member of the Acquired Group to lose the benefit of any right or privilege it presently enjoys or cause any Person who normally does business with such member not to continue to do so on the same basis or is likely to cause any officer or senior employee to leave and, so far as the Seller is aware, the attitude or actions of customers, collaborators, suppliers, employees, and other Persons with regard to the Acquired Group will not be prejudicially affected thereby.

4.6. Compliance with the AIM Rules for Companies. The Seller has made all regulatory announcements and disclosures that it is required to make pursuant to the AIM Rules for Companies and is not in contravention of any of the AIM Rules for Companies.

4.7. The Circular. The Circular and the publication and distribution thereof will comply with the requirements of the Companies Legislation, the AIM Rules for Companies and all other applicable laws and regulations and the information contained therein (save for information set out therein as describes matters concerns the Purchaser and its Subsidiaries and the Purchaser Common Stock) is true and accurate in all material respects and is considered by the Seller to be sufficient to enable its stockholders to make an informed decision as to whether or not to vote in favor of the Acquisition.

4.8. Capitalization of the Acquired Group Companies.

(a) Outstanding Capital Stock of the Company. The Acquired Shares comprise the whole of the issued share capital of the Company and there are no shares in its capital allotted but not issued. All of the Acquired Shares are fully paid or credited as fully paid, and, subject to the Permitted Liens and the releases thereof by the Purchaser pursuant to Section 3.5(b)(iii), will be at Completion 100% legally and beneficially owned by the Seller free from all Liens, and the Company is therefore a direct wholly-owned Subsidiary of the Seller. Save for the Facility Agreement (and documentation entered into in connection with the Facility Agreement, including the Permitted Liens) and the arrangements provided for in this Agreement, there are no agreements or arrangements in force that call for the present or future creation, allotment, issue, transfer, redemption, or repayment of, or grant to any Person the right (whether exercisable now or in the future and whether conditional or not) to call for the creation, allotment, issue, transfer, redemption, or repayment of, any share or loan capital of any member of the Acquired Group (including by way of option or under any right of conversion or pre-emption).

(b) Subsidiaries. The Company does not have, and never has had, any direct or indirect Subsidiaries or subsidiary undertakings apart from the Operating Subsidiaries. The Company is the beneficial owner of the entire issued share capital of each of the Operating Subsidiaries, free from all Liens other than the Permitted Liens. The Company has no associated companies as defined in FRS9.

(c) The Acquired Group has no branch, agency, place of business, or permanent establishment outside the United Kingdom and Australia.

4.9. Financial Statements.

(a) The Accounts. The Accounts: (i) comply with the requirements of the Companies Legislation; (ii) have been prepared in accordance with all applicable IFRSs or, where there are none, in accordance with accounting principles generally accepted in the United Kingdom and on a basis consistent with preceding accounting periods; (iii) show a true and fair view of the state of affairs of the Seller and its Subsidiaries as at the Accounts Date and of its profit or loss for the financial year ended on that date; (iv) save as expressly disclosed in the Accounts, are not affected by any extraordinary, exceptional or non-recurring items; (v) makes due and proper account of all the assets and liabilities (whether

ascertained, contingent or otherwise and whether or not quantified or disputed) of the Seller and its Subsidiaries as at the Accounts Date and make proper provision and/or reserve for all such liabilities; and (vi) made due and proper account of the financial commitments in existence as at the Accounts Date.

(b) The Half-Yearly Report. The unaudited Half-Yearly Report: (i) has been prepared with reasonable skill to a standard not less than that required for the public disclosure of unaudited financial information under the AIM Rules (having due regard to applicable IFRSs or, where there are none, in accordance with accounting principles generally accepted in the United Kingdom) and on a basis consistent with the Accounts; (iii) show with a reasonable accuracy having regard to the purpose for which such Half-Yearly Report was prepared a true and fair view of the state of affairs of the Seller and its Subsidiaries as at the Half-Yearly Report Date and of its profit or loss for the six-month period ended on that date; (iv) except as expressly disclosed in the Half-Yearly Report, is not affected by any extraordinary, exceptional or non recurring items; (v) makes due account of all the material assets and material liabilities (whether ascertained, contingent or otherwise and whether or not quantified or disputed) of the Seller and its Subsidiaries as at the Half-Yearly Report Date and makes proper provision and/or reserve for all such liabilities; and (vi) made due account of all material financial commitments in existence as at the Half-Yearly Report Date.

(c) Accounting records. The accounting records of the Seller and its Subsidiaries: (i) have at all times been fully, properly and accurately kept and completed and contain due and accurate records of all matters required by law to be entered in them; and (ii) contain or reflect no material inaccuracies or discrepancies of any kind.

(d) Management Accounts. Having regard to the purpose for which the Management Accounts have been prepared, they are not misleading in any material respect and do not overstate the assets or understate the liabilities and do not overstate the profits or understate the losses of the Seller and its Subsidiaries in respect of the date or period to which they relate.

4.10. Absence of Undisclosed Liabilities. The Acquired Group has no Liabilities except for (a) Liabilities reflected in the Half-Yearly Report for the period ended on the Half-Yearly Report Date and (b) Liabilities incurred in the Ordinary Course of Business since the Half-Yearly Report Date none of which results from, arises out of, or relates to any breach or violation of, or default under, a Contractual Obligation of the Acquired Group or Legal Requirement applicable to the Acquired Group. Notwithstanding the foregoing, there are no outstanding payment obligations on and as of the Effective Date which are due or payable in accordance with IFRS accrual accounting from and after the Completion with respect to the Contractual Obligations acquired by Purchaser as a result of its acquisition of the Acquired Assets.

4.11. Absence of Certain Developments. Since the Half-Yearly Report Date, the Business has been conducted in the Ordinary Course of Business and, except as set forth in the Disclosure Letter:

(a) no member of the Acquired Group has (i) amended its Organizational Documents, (ii) amended any term of its outstanding Equity Interests or other securities or (iii) issued, sold, granted, or otherwise disposed of, its Equity Interests or other securities;

(b) no member of the Seller Group has become liable in respect of any Guarantee or has incurred, assumed or otherwise become liable in respect of any material Debt;

(c) no member of the Seller Group has permitted (i) any Acquired Asset to become subject to any Lien, or (ii) any of its other Assets to become subject to any Lien that would reasonably be expected to have a Material Adverse Effect;

(d) no member of the Seller Group has made any declaration, setting aside or payment of any dividend or other distribution with respect to, or any repurchase, redemption or other acquisition of, any of its capital stock or other Equity Interests;

(e) no member of the Seller Group has entered into, or performed, any transaction with, or for the benefit of, the Seller or any Seller Security Holder or, to the Seller's Knowledge, any Affiliate of the Seller or of any Seller Security Holder;

(f) there has been no material loss, destruction, damage, or eminent domain taking (in each case, whether or not insured) affecting (i) any entity in the Acquired Group, (ii) the Business or any Acquired Asset or (iii) any other Asset the loss, destruction, damage, or eminent taking of which would reasonably be expected to have a Material Adverse Effect;

(g) no member of the Seller Group has increased the Compensation or benefits payable or paid, whether conditionally or otherwise, to (i) any employee, consultant or agent, (ii) any director or officer or (iii) any holder of Equity Interests in the Seller or in the Acquired Group or of any Affiliate of any such holder;

(h) no member of the Seller Group has terminated or closed any facility, business or operation;

(i) no member of the Seller Group has instituted any new, or modified any existing, severance or termination pay practices;

(j) no member of the Seller Group has made any material change in its methods of accounting or accounting practices (including with respect to reserves);

(k) no member of the Seller Group has written up or written down any of its material Assets;

(l) no share or loan capital has been allotted or issued or agreed to be allotted or issued by any member of the Seller Group;

(m) no distribution of capital or income has been declared, made or paid in respect of any share capital of the Seller Group and (excluding fluctuations in overdrawn current accounts with bankers) no loan or loan capital or preference capital of the Seller Group has been repaid in whole or part or has become liable to be repaid;

(n) no member of the Seller Group has incurred any material capital expenditure or any material capital commitment or disposed of any material capital Asset or any interest in any such Asset;

(o) no member of the Seller Group has entered into any license, collaboration or research agreement, or any other material agreement which would be required to be scheduled in the Disclosure Letter pursuant to Section 4.21, with a Third Party;

(p) no member of the Seller Group has made any change to the terms of engagement of any consultant or independent contractor and no member of the Seller Group has engaged any further independent contractors or consultants;

(q) no member of the Seller Group has initiated, compromised or settled any material litigation or arbitration proceeding;

(r) no event or circumstance has occurred which has had, or would reasonably be likely to have, a Material Adverse Effect; and

(s) no member of the Seller Group has entered into any Contractual Obligation to do any of the things referred to elsewhere in this Section 4.11.

4.12. Debt; Guarantees. The Disclosure Letter sets forth the details of the principal amount of all outstanding Debts of the Seller Group, including any Inter-Company Debt, as of the Effective Date, the name of the creditor, the maturity date thereof and the collateral, if any, securing such Debt. Except as reflected in the Disclosure Letter and the Half-Yearly Report, there are no Debts owing by the Seller Group, other than Debts which have arisen in the Ordinary Course of Business not in excess of US$35,000. Except as reflected in the Half-Yearly Report, the Seller Group does not have any Liability in respect of a Guarantee of any Liability of any other Person. Neither the execution, delivery or performance of this Agreement or any Ancillary Agreement, nor the consummation of the Contemplated Transactions will give rise, with or without the passage of time, to any default, violation, termination event, call right, put right, acceleration of any payment, repurchase option or other Liability or Lien under any item of Debt.

4.13. Operating Assets.

(a) Ownership of Assets. The Acquired Group has sole and exclusive, good and marketable title to all of the Assets used in the Business other than the Assigned Agreements and the Retained Agreements. None of the Acquired Assets is subject to any Lien other than Permitted Liens, either before or immediately after giving effect to the Contemplated Transactions.

(b) Required Approvals. The Disclosure Letter sets forth a true, correct and complete list of the identities of any Person whose consent or approval is required and the matter, agreement or contract to which such consent relates, in connection with the Acquisition or the transfer, assignment or conveyance of the Acquired Assets.

(c) Sufficiency of Acquired Assets. The Acquired Assets comprise all of the assets, properties and rights of every type and description, whether real or personal, tangible or intangible, used in or necessary for the conduct of the Business. The Acquired Assets are adequate to conduct the Business. The Excluded Assets do not include any asset, property or right, of any type or description, whether real or personal, tangible or intangible, that is used in or necessary for the conduct of the Business.

4.14. Real Property. The Acquired Group does not own or use any real property other than the Properties. The Disclosure Letter describes all the Properties and specifies the lessor(s) of such Properties and identifies each lease or any other Contractual Obligation under which such Property is leased.

4.15. Intellectual Property.

(a) Registered Intellectual Property. The Disclosure Letter contains a complete list of all of the following items of Intellectual Property owned or co-owned by or licensed to the Seller Group and included in the Acquired Assets or used in the Business: (i) Patents, (ii) registered trademarks or service marks, domain names, or applications therefor and unregistered trademarks that are material to the Business, and (iii) registered copyrights ((i), (ii), and (ii), collectively, hereinafter the "Registered Intellectual Property"). For every item of Registered Intellectual Property, the Disclosure Letter identifies the owner or co-owners of record and, if different, the beneficial owners of such item and, for items that are licensed to the Seller Group from a Third Party, identifies the Inbound IP Agreements (defined below) under which such item is licensed and whether such license is exclusive or non-exclusive with respect to such item. For each Patent, the Disclosure Letter sets forth the country, title, patent number (if issued), application number, filing date, issue date, inventors, and any continuity relationship (such as continuation, continuation-in-part, divisional) with respect to any other Patent. For each registered trademark or service mark or application therefor, the Disclosure Letter sets forth the country, mark, registration number (if issued), application number, filing date, issue date, and the description of goods or

services covered. For each internet domain name, the Disclosure Letter sets forth the registrant, registrar and administrative contact names for the registrant and registrar, the expiration date, and whether the domain is active. For each registered copyright or application therefor, the Disclosure Letter sets forth the title of the work of authorship, the country, and the registration number and registration date if registered or the application date if unregistered.

(b) IP Agreements. The Disclosure Letter identifies under separate headings the name and parties to (i) each Contractual Obligation that is included in the Acquired Assets under which any Third Party has granted to the Seller Group a license or other current or contingent rights with respect to Intellectual Property or Technology (other than non-exclusive licenses to use Off-the-Shelf Software) which is necessary for or used in the Business ("Inbound IP Agreements") and each item of Registered Intellectual Property subject thereto, and (ii) each Contractual Obligation under which the Seller Group has granted to any Third Party a license or other current or contingent right (including without limitation any financial agreements in which Intellectual Property or Technology have been used as collateral) with respect to Intellectual Property or Technology which is necessary for or used in the Business ("Outbound IP Agreements" and together with the Inbound IP Agreements, the "IP Agreements") and each item of Registered Intellectual Property subject thereto. Other than the IP Agreements identified in the Disclosure Letter, there are no Contractual Obligations relating to the Intellectual Property or Technology of the Seller Group which are necessary for or used in the Business, nor is any entity in the Acquired Group bound by or a party to any Contractual Obligations with respect to the Intellectual Property or Technology of any other Person which are necessary for or used in the Business, including without limitation, consulting agreements, agreements with government agencies or economic development authorities, agreements with universities, sponsored research agreements, and non-disclosure agreements with other Persons. Except as provided in the Outbound IP Agreements listed in the Disclosure Letter, no member of the Acquired Group is obligated under any undertaking or agreement to indemnify any Person against a charge of infringement of Intellectual Property. Except as disclosed in the Disclosure Letter, each of the IP Agreements (i) constitutes an Enforceable Contractual Obligation of the Seller Group, as applicable and as identified in the Disclosure Letter, and to the Seller's Knowledge the other respective party or parties thereto, and is in full force and effect, (ii) will continue to be in full force and effect on identical terms immediately following the execution and performance of this Agreement, and (iii) represents the complete agreement and understanding between the applicable member of the Seller Group and the other party or parties thereto relating to the Intellectual Property that is the subject of such Contractual Obligation. The Seller Group has performed all of its material obligations under each of the IP Agreements to which the Seller Group is party and the Seller Group are not (with or without the lapse of time or the giving of notice, or both) in material breach or material default under any IP Agreement, and to the Seller's Knowledge no other party to any of such Contractual Obligation is (with or without the lapse of time or the giving of notice, or both) in material breach or

material default thereunder. None of the other parties to the IP Agreements has given any notice to or made a claim against any member of the Seller Group with respect to any breach or default under the IP Agreements. Except as disclosed in the Disclosure Letter, the entry into or performance of this Agreement and the consummation of the Acquisition and the Contemplated Transactions will not give the counterparty to any IP Agreement the right to terminate such IP Agreement and will not give rise to any other right of such counterparty with respect to the Intellectual Property or Technology included in the Acquired Assets. Complete and correct copies of the IP Agreements (including all amendments, supplements and waivers thereto) have been made available to Purchaser.

(c) Title. By license, ownership, or co-ownership, the Acquired Assets include all rights, title, and interests in and to (i) the Registered Intellectual Property required to be identified in the Disclosure Letter and (ii) all material Intellectual Property (other than Registered Intellectual Property) and Technology that is used by the Seller Group in the operation of the Business or necessary for the manufacture, use or sale of the Acquired Products, in each case free and clear of any Lien, other than Permitted Liens. All assignments to the Seller Group of inventorship, authorship or ownership rights relating to Intellectual Property are valid and Enforceable and are included in the Acquired Assets. Each of the Patents listed in the Disclosure Letter as being owned or co-owned by the Seller Group properly identifies each and every inventor of the claims thereof as determined in accordance with the laws of the jurisdiction in which such Patent is issued or such Patent is pending, and to the Seller's Knowledge, the same is true for Patents exclusively or non-exclusively licensed to the Seller Group. Each inventor named on the Patents identified in the Disclosure Letter has executed an agreement assigning all of his, her or its material rights, title and interests in and to such Patent and the inventions or design embodied and claimed therein, to the Seller Group, or in the case of Patents licensed to the Seller Group, their identified owners. To the Seller's Knowledge, no inventor named on any such Patent that is licensed, owned or co-owned by the Seller Group has any Contractual Obligation or other obligation that would preclude any such assignment or otherwise conflict with the obligations of such inventor to the Seller Group.

(d) Validity and Enforceability. The Registered Intellectual Property owned, licensed or co-owned by the Seller Group is in good standing, subsisting, valid and enforceable (or in the case of applications for Patents, are pending and in force). All Registered Intellectual Property owned or co-owned by or exclusively licensed to the Seller Group is currently in compliance with all Legal Requirements, other than any requirement that, if not satisfied, with respect to a Registered Intellectual Property would not result in a revocation, cancellation, or lapse or otherwise adversely affect its enforceability, use, or priority. Neither the Seller Group nor, to the Seller's Knowledge, Third Parties, have engaged in any (i) inequitable conduct, Patent, trademark or copyright misuse, or fraud, or (ii) failed to disclose material prior art, in connection with the prosecution of any Registered Intellectual Property owned or co-owned by or exclusively licensed to

the Seller Group or the enforcement or licensing of any such Registered Intellectual Property, in a manner that would result in the abandonment or unenforceability of such Registered Intellectual Property. The Seller Group has not engaged in any unlawful conduct or fraud in connection with the prosecution of any Registered Intellectual Property owned or co-owned by the Seller Group in a manner that would result in the unenforceability or invalidity of such Registered Intellectual Property, and, to the Seller's Knowledge, there is no such activity with respect to Registered Intellectual Property exclusively licensed to the Seller Group. With respect to any Patent owned or co-owned by the Seller Group, to the Seller's Knowledge, (i) there are no published Patents, articles or other prior art references that would reasonably be expected to adversely affect the validity or enforceability of such Patent; and (ii) the Seller Group has met its duty of candor as required by 37 C.F.R. Section 1.56 or similar U.S. or non-U.S. disclosure requirements with regard to any Patent owned or co-owned by the Seller Group and there has been no material misrepresentations or concealment of material information from the applicable patent office in violation of any such requirements in connection with the prosecution of any such Patents, and to the Seller's Knowledge, both clause (i) and (ii) above are true with respect to Patents exclusively licensed to the Seller Group and the Third Parties who prosecuted such Patents.

(e) Governmental Orders. No Intellectual Property or Technology owned or co-owned by Seller Group is subject to any outstanding Governmental Order, and no Action is pending or, to the Seller's Knowledge, threatened, that challenges the legality, validity, enforceability, use or ownership of such Intellectual Property or Technology. In addition, to the Seller's Knowledge, no Intellectual Property or Technology exclusively licensed to the Seller Group is subject to any outstanding Governmental Order, and no Action is pending or threatened, that challenges the legality, validity, enforceability, use or ownership of such item.

(f) Scope of Patent Rights. The Patents exclusively owned or licensed to the Seller Group and identified in the Disclosure Letter have claims sufficient to cover the manufacture, use and sale of the Acquired Products.

(g) Trade Secrets. No material Trade Secret, proprietary know-how, or other proprietary, non-public information has been disclosed or authorized to be disclosed to any Third Party not subject to confidentiality obligations to the Seller Group, and to the Seller's Knowledge no Third Party to such a nondisclosure agreement is in breach or default thereof. The Seller Group has implemented policies and procedures sufficient to protect and maintain the confidentiality of their Trade Secrets, proprietary know-how and other proprietary, non-public information.

(h) Seller Technology. The Seller Group owns or is in possession of and has sufficient rights to use all Technology that is used in or necessary for the conduct of the Business, as currently conducted or for the manufacture, use or sale of the Acquired Products.

(i) Infringement. To the Seller's Knowledge, the Seller Group has not, and the manufacture, use, sale, importation and other exploitation of the Acquired Products will not, interfere with, infringe upon, misappropriate, or otherwise come into conflict with any Intellectual Property rights of Third Parties or induce Third Parties to do any of the foregoing, and (b) the Seller Group has not received any charge, complaint, claim, demand, or notice alleging any such interference, infringement, misappropriation, or violation (including any claim that a Person must license or refrain from using any Intellectual Property or Technology of any Third Party in connection with the conduct of the Business or the manufacture, use, sale, or other exploitation of any Acquired Product). To the Seller's Knowledge, no Third Party has interfered with, infringed upon, misappropriated or otherwise come into conflict with any Intellectual Property or Technology owned or co-owned by or exclusively licensed to the Seller Group.

(j) Royalties. Except as set forth in the IP Agreements, there are no royalties payable by the Seller Group for the use of any Intellectual Property or Technology.

(k) Employees and Consultants. All employees, agents and consultants of the Seller or of any member of the Seller Group that have contributed to the development of the Acquired Products or any Technology used by the Seller Group or who have had access to the Seller Group's confidential or proprietary information have entered into written agreements with the Acquired Group whereby (i) the Acquired Group is entitled to all ownership rights in any Intellectual Property or Technology relating to the Business that the employee, agent, or consultant may have invented, discovered, originated, made, or conceived while working for the Seller Group, and all such ownership rights are duly assigned to the Acquired Group, and (ii) the employee, agent, or consultant agrees to hold and maintain in confidence all confidential and proprietary information of the Acquired Group. To the Seller's Knowledge, none of the employees, agents, or consultants of the Seller Group is obligated under any Contractual Obligation (including licenses, covenants or commitments of any nature), or subject to any Governmental Order of any Governmental Authority, that would interfere with the use of his or her best efforts to promote the interests of the Acquired Group or that would conflict with the Business or that would conflict with any obligation of any such employees, agents or consultants to the Acquired Group.

(l) Obligations Affecting Purchaser and its Affiliates. Neither this Agreement nor the consummation of the Contemplated Transactions will result in (i) Purchaser or any of its Affiliates being bound by or subject to any non-compete or other restriction on the operation or scope of their businesses or any license, or (ii) any license being granted to any Third Party with respect to any Intellectual Property or Technology owned or controlled by Purchaser or its Affiliates (other than with respect to licenses of the Acquired Group).

4.16. Legal Compliance; Illegal Payments; Permits.

(a) General Compliance. No member of the Acquired Group is in breach or violation of, or default under, or has ever been in breach or violation of, or default under (i) any of the its Organizational Documents or (ii) any material Legal Requirement applicable to the Business, the Acquired Assets, the Acquired Products or the Assumed Liabilities or any other Asset, business or Liabilities of the Acquired Group except as would not reasonably be expected to have a Material Adverse Effect, nor to the Seller's Knowledge, is there a basis which could constitute such a breach, violation or default of any of the foregoing.

(b) Regulatory Compliance.

(i) None of the activities, contracts or rights of any member of the Acquired Group is ultra vires, unauthorized, invalid or unenforceable or in breach of any contract or covenant and all documents in the enforcement of which the relevant member of the Acquired Group may be interested are valid and have been duly stamped.

(ii) Each Acquired Product subject to jurisdiction of the U.S. Food and Drug Administration, or any successor agency thereto ("FDA") under the Federal Food, Drug and Cosmetic Act ("FDCA") or similar foreign Governmental Authority or Legal Requirement, that is manufactured, tested, distributed, held or marketed by or on behalf of the Seller Group is being manufactured, tested, developed, distributed or held by or on behalf of the Seller Group in material compliance with all applicable Legal Requirements, including those relating to investigational use, Good Manufacturing Practices of the applicable jurisdiction ("GMP"), Good Laboratory Practices, 21 C.F.R. Part 820 ("Quality System Regulations"), record keeping, filing of reports, and security.

(iii) The Seller has provided or made available to the Purchaser copies of all documents in the possession of the Seller Group (or to which it has access) material to assessing compliance with the FDCA and its implementing regulations, and similar foreign Legal Requirements with respect to the Acquired Products, including copies of (i) all warning letters and untitled letters, notices of adverse findings and similar correspondence received in the last three years, (ii) all 483s and other audit reports performed during the last three (3) years and (iii) any document concerning any significant oral or written communication received from the FDA or similar foreign Governmental Authority in the last three (3) years. The Seller has provided to the Purchaser all FDA or similar foreign Governmental Authority correspondence and minutes from meetings with respect to the Acquired Products, whether in person, by telephone, or otherwise, with FDA or similar foreign Governmental Authority during the last two (2) years.

(iv) The Seller Group has not conducted any clinical trials with respect to the Acquired Products.

(v) All manufacturing operations conducted by or on behalf of the Seller Group with respect to the Acquired Products being used in clinical trials have been conducted in accordance, in all material respects, with applicable current GMP, as that term is generally understood, for drug and biological products, including 21 U.S.C. 351 and 21 C.F.R. Parts 210 and 211 and the Quality Systems Regulations.

(vi) Neither the Seller Group nor, to the Seller's Knowledge, any of its officers, employees, agents, vendors, suppliers, or investigators acting for the Seller Group, has (i) been placed under or otherwise made subject to the FDA's policy with respect to "Fraud, Untrue Statements of Material Facts, Bribery, and Illegal Gratuities" set forth in 56 Fed. Reg. 46191 (September 10, 1991) and any amendments thereto ("FDA Fraud Policy") or any similar Legal Requirement or (ii) committed any act, made any statement or failed to make any statement that would reasonably be expected to provide a basis for the FDA or any Governmental Authority to invoke the FDA Fraud Policy or any similar Legal Requirement. Neither the Seller Group nor, to the Seller's Knowledge, any officer, employee or agent of the Seller Group has been (x) subject to, (y) convicted of any crime or (z) engaged in any conduct that would reasonably be expected to result in, debarment under 21 U.S.C. Section 335a or any similar state law or exclusion under 42 U.S.C. Section 1320a-7 or any similar Legal Requirement.

(vii) None of the Acquired Products has been recalled, suspended or discontinued, ordered to be recalled, suspended or discontinued or voluntarily recalled, suspended, or discontinued as a result of any action or threatened action by any Governmental Authority.

(c) Foreign Corrupt Practices. The Seller Group has complied in all material respects, with all material federal, state, local or foreign laws, statutes, regulations, rules, ordinances and judgments, decrees, orders, writs and injunctions, of any court or Governmental Authority relating to any of the property owned, leased or used by them, or applicable to their business, including, but not limited to, (i) the Foreign Corrupt Practices Act of 1977 and any other Legal Requirement regarding use of funds for political activity or commercial bribery and (ii) all Legal Requirements of any applicable jurisdiction relating to equal employment opportunity, discrimination, occupational safety and health, environmental matters, interstate commerce, anti-kickback, healthcare and antitrust.

4.17. Permits. The Seller Group is entitled to carry on the Business now carried on by it without conflict with any valid right of any person, firm or company and the Seller Group has conducted the Business in accordance with all applicable Legal Requirements

and there is no violation of, or default with respect to, any Legal Requirements of any Governmental Authority that may have a Material Adverse Effect upon the Acquired Assets or the Business. All necessary licenses, consents, permits and authorizations (public or private) have been obtained by the Seller Group to enable the Acquired Group to carry on the Business effectively in the places and in the manner in which such Business is now carried on and all such licenses, consents, permits and authorizations are valid and subsisting and the Seller knows of no reason why any of them should be suspended, cancelled or revoked. The Disclosure Letter describes each such permit and governmental authorization together with the Governmental Authority or other Person responsible for the issuance thereof. The Permits and Governmental Authorizations set forth in the Disclosure Letter are valid and in full force and effect and the Seller Group is not in breach or violation thereof, or default thereunder, and, to the Seller's Knowledge, no basis exists which, with notice or lapse of time or both, would constitute any such breach, violation nor default. The permits and governmental authorizations set forth in the Disclosure Letter are held by a member of the Seller Group and will continue to be valid and in full force and effect for the benefit of the Purchaser, on identical terms following the consummation of the Contemplated Transactions.

4.18. Tax Matters.

(a) Administrative matters. No member of the Acquired Group has at any time been, nor so far as the Seller is aware are there any circumstances in which any member could be, involved in any dispute with, or the subject of any enquiry by, any Taxing Authority other than routine enquiries of a minor nature following the submission of computations and returns. Each member of the Acquired Group has duly, and within any appropriate time limits, made all returns, given all notices, supplied all information and maintained all such records as are required to be made, given, supplied or maintained by it in relation to Tax; all such returns, notices and information were complete and accurate in all material respects and were made or provided on the proper basis and are not disputed by any Taxing Authority. Each member of the Acquired Group has duly paid all Tax which it has become liable to pay and has not been notified of any liability to pay any penalty, interest, supplement, fine, default surcharge or other payment in connection with any claim for Tax. No transaction in respect of which any consent or clearance from any Taxing Authority was required or sought has been entered into or carried out by any member of the Acquired Group without such consent or clearance having been properly obtained. No Taxing Authority has operated or agreed to operate any special arrangement or practice (being one not based on relevant legislation or published practice) in relation to the affairs of any member of the Acquired Group.

(b) Withholdings. Each member of the Acquired Group has made all deductions and retentions of or on account of Tax as it was or is obliged or entitled to make and has made all such payments of or on account of taxation as should have been made to any Taxing Authority in respect of such deductions or retentions.

(c) Employees, etc. No member of the Acquired Group has made any payment to, or provided any benefit for or on behalf of, any officer or employee or ex-officer or ex-employee of that member which is not allowable as a deduction in calculating the profits of that member for Tax purposes. Each member of the Acquired Group has kept proper books and records relating to the same. None of the Acquired Companies is subject to any Liability for Taxation under the UK Income Tax (Earnings and Pensions) Act 2003 ("ITEPA") in respect of any restricted securities or restricted interest in securities (within the meanings given to such terms in ITEPA, "Restricted Securities") granted or otherwise issued to employees of the Seller Group since April 15, 2003; and save as set out in the Disclosure Letter, no employee (or ex-employee) of the Seller Group currently holds any Restricted Securities or restricted interest in securities granted or otherwise issued by any member of the Seller Group in respect of which a future Liability for Taxation will arise under ITEPA.

(d) No member of the Acquired Group has, within the last 6 years, acquired any capital asset from any other member of the Acquired Group which at the time of the acquisition was a member of the same group of companies for the purposes of any Taxes.

(e) No member of the Acquired Group has entered into any indemnity, guarantee or covenant under which a member of the Acquired Group has agreed to meet or pay a sum equivalent to or by reference to another person's liability to Tax.

4.19. Employee Benefit Plans. In this Section 4.19, "Relevant Benefits" means any pension, lump sum, gratuity or other like benefit provided or to be provided on retirement or on death, or by virtue of a pension sharing order or provision, or in anticipation of retirement, or, in connection with past service, after retirement or death or to be provided on or in anticipation of or in connection with any change in the nature of the service of any employee or officer.

(a) Except as set forth in the Disclosure Letter, no member of the Acquired Group has any obligation (whether legally binding or not) to: (i) pay any pension; or (ii) make any other payment on or after retirement or death or during periods of sickness or disability (whether of a temporary or permanent nature); or (iii) otherwise to provide Relevant Benefits, to, or in respect of, any person who is now or has been an officer or employee of that member of the Acquired Group or spouse or dependant of such officer or employee. The Disclosure Letter includes, without limitation, the rates at which contributions are paid and have been paid by each employer and employee in respect of the Relevant Benefits and the basis upon which such contributions are calculated.

(b) No member of the Acquired Group has any obligation (whether legally binding or not) to participate in or has ever participated in any scheme or arrangement for the provision of Relevant Benefits and the relevant member of the Acquired Group is not otherwise paying, providing or contributing towards

nor has it paid, provided or contributed towards or given any commitment (whether legally binding or not) to provide any Relevant Benefits for or in respect of any present or past employee or officer of a member of the Acquired Group or of any predecessor in business of a member of the Acquired Group (including for a spouse or dependant of any such person) or any other costs or expenses in respect of the provision of any Relevant Benefits.

(c) No member of the Acquired Group has or could have any liability under Pensions Act 1995 sections 75 or 75A or otherwise to make any payment to any scheme or arrangement for the provision of Relevant Benefits to which it contributed or in which it has participated prior to Completion.

(d) Each member of the Acquired Group has complied with its obligations under Welfare Reform and Pensions Act 1999 section 3 and the Australian equivalent superannuation guarantee legislation.

(e) No current or former employee or officer of the Seller Group, has any right to Relevant Benefits arising as a result of a transfer of his or her employment to a member of the Seller Group under either the Transfer of Undertakings (Protection of Employment) Regulations 1981 (as amended) or the Transfer of Undertakings (Protection of Employment) Regulations 2006.

(f) No member of the Acquired Group is, nor has it since April 27, 2004 been, an associate of or connected with (within the meaning of Pensions Act 2004 sections 38 and 51) any person who is or has been an employer in relation to an occupational pension scheme which is not a money purchase scheme.

(g) There is no contribution notice, financial support direction or restoration order (as defined in sections 38 to 56 of the Pensions Act 2004) in force in which any member of the Acquired Group is named, and nor has any member of the Acquired Group been party to any act or omission and there is no other fact or circumstance likely to give rise to any such notice or direction.

(h) No undertaking or assurance has been given to any person who is now, or has been, an officer or employee of the Acquired Group, or spouse or dependant of such officer or employee, as to the introduction of any Relevant Benefits which the Acquired Group would be required to implement in accordance with good industrial relations practice, whether or not there is any legal obligation to do so

(i) All fees, contributions, charges and expenses in respect of the Relevant Benefits have been paid on the due dates in accordance with the contractual requirements governing such contributions and contributions are not payable in arrears.

(j) All lump sum and any pension benefits payable in the event of the death or accident, injury or sickness of an employee in service are fully insured with a reputable insurance company authorised under the Financial Services and Markets

Act 2000 with permission under that Act to effect and carry out such insurance and all insurance premiums payable have been paid.

(k) Each member of the Acquired Group has at all times complied with its obligations under any scheme or arrangement for the provision of Relevant Benefits and all applicable laws, regulations and requirements.

(l) Any scheme or arrangement for the provision of Relevant Benefits has been operated and administered in accordance with and in material compliance at all times with all applicable laws, regulations and requirements and the trusts, powers and provisions of the governing documentation for such schemes or arrangements.

(m) There are no actions, suits or claims outstanding, pending or threatened by or against any member of the Acquired Group in respect of any act, event omission or other matter arising out of or in connection with the Relevant Benefits.

4.20. Environmental Regulation.

(a) No matters relating to health and safety or to the environment exist or have arisen out of the Business or exist or have arisen at, under or from the Properties which could give rise to any fines, penalties, losses, damages, costs, expenses or liabilities or could require any works. All audits and other assessments, reviews, reports, investigations and test results (whether in final or draft form) regarding the environment and health and safety, which are in the possession or control of the Seller Group relating to the Business, the Properties and any other property owned, occupied or controlled by the Acquired Group whether now or in the past have been provided or made available to Purchaser.

(b) The Seller Group is not nor has it been involved in any Action under any Environmental Law, none is threatened and to the Seller's knowledge, none is likely to arise. At no time has the Seller Group received any notice, claim, complaint or other communication alleging a breach of liability under Environmental Law or in relation to such health, safety or environmental matters.

(c) All audits and other assessments, reviews, reports, investigations and test results (whether in final or draft form) regarding the environment and health and safety, which are in the possession or control of the Seller Group relating to the Business, the Properties and any other property owned, occupied or controlled by any entity in the Seller Group, whether now or in the past have been provided or made available to Purchaser.

4.21. Contracts.

(a) Excluded Liabilities. The Acquired Assets do not include any Contractual Obligations that (i) constitute or would reasonably be expected to give rise to any

Excluded Liabilities or (ii) imposes any non-competition covenants on Purchaser's operation of the Business.

(b) Contracts. The Disclosure Letter identifies each material agreement, whether written or oral, that is used in, necessary for or related to the Business. The Seller has delivered or made available to Purchaser true, accurate and complete copies of each Assigned Agreement listed in the Disclosure Letter, in each case, as amended or otherwise modified and in effect. The Seller has delivered or made available to Purchaser a written summary setting forth the material terms and conditions of each oral Assigned Agreement listed in the Disclosure Letter.

(c) Enforceability, etc. To the Seller's Knowledge, each Assigned Agreement is Enforceable against each party to such Contractual Obligation, is in full force and effect and will not be terminated (or be liable to termination) upon the consummation of the Contemplated Transactions in favor of the Purchaser.

(d) Breach, etc. Neither the Seller Group, nor, to the Seller's Knowledge, any Third Party to any Assigned Agreement is in breach or violation of, or default under, or has repudiated any provision of, any Assigned Agreement.

(e) No member of the Acquired Group is party to or subject to any agreement, transaction, obligation, commitment, understanding, arrangement or liability which:

(i) is incapable of complete performance in accordance with its terms within six months after the date on which it was entered into or undertaken;

(ii) is likely to result in a material loss to the Acquired Group on completion of performance;

(iii) cannot readily be fulfilled or performed by the Acquired Group on time without unusual expenditure of money and effort;

(iv) may be terminated or cease to be performed by any counterparty without notice or by giving three months' notice or less;

(v) involves or is likely to involve obligations, restrictions, expenditure or receipts of an unusual, onerous or exceptional nature;

(vi) is a forward contract relating to foreign currency (including the euro);

(vii) requires the Acquired Group, or under which the Acquired Group is or may become liable, to make any investment (as defined in Part III of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (as amended from time to time)) with, or to deposit any money with,

or to provide any loan or financial accommodation or credit (other than normal trade credit) to any Person, or to subscribe, convert, acquire, dispose of or underwrite any investment;

(viii) is a contract for services (other than a contract for the supply of electricity, gas or water or normal office services);

(ix) requires the Acquired Group to pay any finders' fee, royalty, brokerage, or commission;

(x) in any way restricts the Acquired Group's freedom to carry on the whole or any part of the Business in the manner presently coordinated anywhere in the world; or

(xi) is in any way otherwise than in the ordinary and proper course of the Acquired Group's business.

4.22. Affiliate Transactions. To the Seller's Knowledge, (a) no Representative of the Seller Group or any Seller Security Holder or any Affiliate of any Seller Security Holder is a consultant, competitor, creditor, debtor, collaborator, distributor, supplier, or vendor of the Business, or is a party to any Assigned Agreement and (b) no Representative of the Seller Group or any Seller Security Holder or any Affiliate of any Seller Security Holder owns any Acquired Asset. The Acquired Group is not a party to, nor have its profits or financial position during the financial period ending on the Half-Yearly Report Date and since the Half-Yearly Report Date been affected by, any agreement or arrangement which is not entirely of an arm's length nature.

4.23. Labor Relations. There are no substantial labor troubles (including any grievance, arbitration, work slowdown, lockout, stoppage, picketing or strike) pending, or to the Seller's Knowledge, threatened between a member of the Acquired Group, on the one hand, and its employees or any of them, on the other hand, and there have been no such troubles at any time during the past five years. Except as disclosed in the Disclosure Letter, (a) no employee of a member of the Acquired Group is represented by a labor union, (b) no member of the Acquired Group is a party to, or otherwise subject to, any collective bargaining agreement or other labor union contract, (c) no petition has been filed nor any Action instituted or threatened by or on behalf of an employee or group of employees of a member of the Acquired Group with any labor relations board seeking recognition of a bargaining representative, (d) no member of the Acquired Group has or is currently engaged in any unfair labor practice, and (e) to the Seller's Knowledge, there is no organizational effort currently being made or threatened by, or on behalf of, any labor union to organize employees of a member of the Acquired Group and no demand for recognition of employees of a member of the Acquired Group has been made by, or on behalf of, any labor union. No officer's employment with a member of the Acquired Group has been terminated for any reason within the past twelve (12) months nor has any such officer or employee notified a member of the Acquired Group of his or her intention to resign or retire. Each member of the Acquired Group currently complies with and for the past five years has complied with all material Legal Requirements relating to the

employment of labor in all material respects, including any provisions thereof relating to (i) wages and hours, including with respect to classification as exempt or non-exempt for overtime purposes, meal and break periods, and record-keeping requirements; (ii) unlawful, wrongful, retaliatory, or discriminatory employment or labor practices; (iii) occupational health and safety standards; (iv) plant closing, mass layoff, immigration, workers' compensation, unemployment compensation, human rights legislation, and other employment laws, regulations, and ordinances; and (v) classification of persons providing services to a member of the Acquired Group as employees or independent contractors. The Acquired Group has, in relation to each of its officers and employees (and, so far as relevant, to each of its former officers and employees): (i) complied with all obligations imposed on any of them by, and all orders and awards made under, all directives, statutes, regulations, orders, codes of conduct and practice, collective agreements and customs and practices relevant to the relations between it and its employees or any trade union, or to the conditions of service of its employees; (ii) complied with all recommendations made by the Advisory Conciliation and Arbitration Service and with all awards and declarations made by the Central Arbitration Committee or by the Australian Industrial Relations Commission (or any equivalent body); and (iii) maintained current, adequate and suitable records regarding the service of each of such officers and employees.

4.24. Employees and Consultants.

(a) Particulars of Directors. The particulars of each director of each company in the Acquired Group is set forth in the Disclosure Letter. The listing is true and complete and no person who is not named as a director in that paragraph is or is held out as a director of a member of the Acquired Group. The terms of appointment or employment for each director of each member in the Acquired Group (including any amendments to them) are described in the Disclosure Letter.

(b) Particulars of Employees. The particulars set out in the Disclosure Letter show all: (i) names, job titles, notice periods, dates of commencement of employment and the identity of the employer of; and (ii) Compensation payable and other benefits provided or which the Seller Group is obliged to provide (whether now or in the future), with respect to each officer and employee of the Seller Group (and in the case of remuneration and benefits, any person connected with any such person) and include true and complete particulars of all profit sharing, incentive, commission and bonus arrangements to which the Seller Group is a party, whether legally binding on the Acquired Group.

(c) No person who is not named in the Disclosure Letter is an employee of the Seller Group.

(d) Since the Half-Yearly Report Date, no change has been made in the rate of remuneration or the emoluments or pension benefits of any officer, employee, former officer or former employee of the Seller Group and no change has been made in the terms of engagement of any such officer or employee and no additional officer or employee has been appointed.

(e) No present officer or employee of the Acquired Group has given or received notice terminating his appointment or employment.

(f) The standard written terms of employment applicable to each grade or class of employee employed by the Seller Group have been provided to the Purchaser and all employees of the Seller Group are employed on the standard written terms of employment so provided.

(g) There is not now outstanding any contract of employment between the Seller Group and any of its directors, officers or employees which is not terminable by the Seller Group without Compensation (other than statutory compensation) on one month's notice or less given at any time.

(h) There is not in force any agreement to which any member of the Acquired Group is party which provides that a change of control of a member of the Acquired Group (however such change of control may be defined therein) will entitle any director, officer, employee or consultant of the Acquired Group to any payment or benefit whatsoever.

(i) There is no outstanding claim against the Acquired Group by any person who is now or has been an officer or employee of the Seller Group or any dispute between the Seller Group and two or more of its/their employees or former employees and no payments or compensation are due from the Acquired Group under the Employment Rights Act 1996 or equivalent Australian legislation.

(j) No amounts due to or in respect of any of the officers or employees or former officers or employees of the Seller Group are in arrears or unpaid save for salary and benefits accruing in the month in which this Agreement is entered into.

(k) No employee of Seller Group is currently, or has been within the period of six months before the date of this Agreement, subject to any disciplinary process or engaged in any grievance procedure.

(l) Full details of all employees of the Acquired Group who are absent from work for any reason other than paid annual holiday (including absence due to secondment, maternity, paternity, adoption or parental leave and leave to care for dependants) and/or who are absent due to ill-health and have been for more than two weeks are disclosed in the Disclosure Letter.

(m) Since the Half-Yearly Report Date, no payments have been made by the Acquired Group to any officer or employee or former officer or employee of the Acquired Group or to their dependants or relatives which are in excess of that person's entitlements under their terms of employment or appointment, nor is the Acquired Group considering making, nor is it obliged to make, any such payments.

4.25. Litigation and Governmental Orders. There is no Action to which a member of the Seller Group is a party (either as plaintiff or defendant) or to which any Acquired

Assets are subject pending, or to the Seller's Knowledge, threatened, nor, to the Seller's Knowledge, is there any reasonable basis for any of the foregoing. There is no Action that the Seller Group presently intends to initiate. No Governmental Order has been issued that is applicable to, or otherwise affects, the Acquired Group or any Asset or the Business.

4.26. Insurance.

(a) The Disclosure Schedule identifies all insurance policies of the Acquired Group or in which a member of the Acquired Group has an interest, and the material details of all such insurance policies have been provided to the Purchaser.

(b) The Seller Group has maintained at all material times appropriate product liability and other insurance on a primary and non-contributory basis for itself in amounts, respectively, which are reasonable and customary in the United Kingdom and Australia healthcare industries, as applicable, for companies of comparable size and activities at the place of business of the Acquired Group. Such insurance insures against, and at all times will insure against, all liability, including bodily injury, product liability, physical injury, clinical development liabilities, and property damage arising out of the development, manufacture, sale, distribution, or marketing of the Acquired Products. All such policies will be with insurers having a rating of A:X or better in the most current edition of A.M. Best's Key Rating Guide.

(c) There are no material claims currently made against any of the insurance policies of the Acquired Group, no material impairment of the amounts of coverage required thereunder, and to the Seller's Knowledge, there is no reasonable basis for any such claims.

(d) The Acquired Group and all its normally insurable assets are, and at all material times have been, covered to their full replacement or reinvestment value by valid insurances containing no special or unusual terms or conditions against all the risks (including in the case of let property for three years' loss of rent) against which it is normal or prudent to insure.

(e) All liabilities of the Acquired Group in respect of the business carried on by it (including risks which it is contractually required by a third party to cover, third party risks, public and employers' liability, consequential loss liability and loss of profits) are fully covered by valid insurances containing no special or unusual terms or conditions.

(f) The Acquired Group has paid all premiums due and has not done or omitted to do anything the doing or omission of which would make any such policy of insurance void or voidable or would or might result in an increase in the rate of premiums payable under any such policy and the Company has neither received notice of any increase in premium or of change in the terms of cover

under any of such policies nor of the withdrawal (in whole or in part) of cover in respect of any of such policies.

(g) No claim is outstanding under any of the policies referred to in Section 4.26 and to the Seller's Knowledge no fact or circumstance exists which might give rise to a claim under any of those policies.

4.27. Commercial Relationships. Since December 31, 2007, none of the Seller Group's material suppliers, collaborators, distributors, licensors, or licensees have canceled or otherwise terminated their relationship with the Seller Group or materially altered their relationship with the Seller Group. To the Seller's Knowledge, it is not the plan or intention of any such material supplier, collaborator, distributor, licensor, or licensee of the Seller Group, and the Seller Group have not received any threat or notice from any such entity, to terminate, cancel or otherwise materially modify its relationship with the Seller Group. Without limiting the foregoing, the Seller Group are in material compliance with its diligence obligations and has not failed to achieve any development milestones within applicable time periods, under any of the Inbound IP Agreements.

4.28. Solvency.

(a) No order has been made and no resolution has been passed for the winding up of the Seller Group or for a provisional liquidator or manager to be appointed in respect of the Seller Group and no petition has been presented and no meeting has been convened for the purpose of considering the winding up of the Seller Group.

(b) No administration order has been made and no petition for such an order has been presented in respect of the Seller Group.

(c) No receiver, administrator or manager (which expression will include an administrative receiver) has been appointed in respect of all or any of the assets of the Seller Group, nor has any power of sale or power to appoint a receiver or manager under the terms of any mortgage, charge or other security in respect of all or any assets of the Seller Group become exercisable.

(d) No voluntary arrangement under Insolvency Act 1986 section 1 or scheme of arrangement under Companies Act 2006 Part 26 or other compromise or arrangement in respect of the creditors of the Seller Group generally, or any class of them, has been proposed or adopted.

(e) No moratorium under Insolvency Act 1986 section 1A has been proposed or is in force in respect of the Seller Group.

(f) No statutory demand has been served on the Seller Group which has not been paid in full or been withdrawn.

(g) The Seller Group has not been a party to any transaction at an undervalue as defined in Insolvency Act 1986 section 238 nor has it given or received any

preference as defined in Insolvency Act 1986 section 239, in either case within the period of two years ending on the date of this Agreement, nor has the Seller Group at any time been party to any transaction defrauding creditors as defined in Insolvency Act 1986 section 423.

(h) No loan capital, borrowings or interest is overdue for payment by the Seller Group and no other material obligation or indebtedness of the Seller Group is overdue for performance or payment.

(i) No creditor of the Seller Group has taken steps to enforce any debt or other sum owed by the Seller Group, whether by legal proceedings, the exercise of a lien, power of distraint, sequestration, recovery of possession or otherwise (where such debt or sum remains unpaid).

(j) No unsatisfied judgment is outstanding against the Seller Group.

(k) The Seller Group has not suspended or ceased or threatened to suspend or cease to carry on all or a material part of the Business.

(l) No event analogous to any of the foregoing has occurred in or outside England.

4.29. Grants. Full details of all grants and allowances made to any of the members of the Seller Group during the period of six years ending on the Effective Date, and/or due to be made to any of them are disclosed in the Disclosure Letter and the members of the Seller Group have not done or failed to do any act or thing which could result in all or any part of such grants or allowances becoming repayable or being forfeited by any of them.

4.30. Political Donations. The Acquired Group has not made any political donation to any political party or to any other political organization or to any independent election candidate, nor has it incurred any political expenditure, in any such case either since the Half-Yearly Report Date or in the year preceding the Half-Yearly Report Date and it is not under any commitment to do so.

4.31. Powers of Attorney. There is in force no power of attorney or other authority (express, implied or ostensible) given by any member of the Acquired Group to any person to enter into any contract or commitment on its behalf other than to its employees to enter into routine trading contracts in the usual course of their duties. No member of the Acquired Group has appointed any agent or distributor or granted any licenses carrying the right to grant sub-licenses to third parties in respect of any of its products or services in any part of the world.

4.32. Personal Data. Each member of the Seller Group has at all times complied with the Data Protection Act 1998, the Privacy and Electronic Communications Regulations (EC Directive) Regulations 2003 and all other applicable data protection legislation.

4.33. Tenders and the Like. No offer, tender or the like is outstanding which is capable of being converted into an obligation of the Seller Group by an acceptance or other act of some other Person.

4.34. No Registration as of the Date of Issuance. Subject to the provisions of Section 7.11, the Seller understands and acknowledges that (i) the Purchaser Shares are "restricted securities" for purposes of the U.S. federal securities laws and have not been registered under the Securities Act or the securities laws of any state of the United States, (ii) the Purchaser Shares may not be offered or sold, directly or indirectly, in the United States or to, or for the account or benefit of, a U.S. Person (as defined in Rule 902 of Regulation S promulgated under the Securities Act and as presently in effect ("Regulation S")) unless registered under the Securities Act or an exemption from such registration requirements is available, and in any event in compliance with applicable state securities or "blue sky" laws, (iii) the Purchaser is under no obligation to assist the Seller in obtaining or complying with any exemption from registration and (iv) the Purchaser's reliance on exemption from registration under the Securities Act is predicated on the Seller's representations set forth herein.

4.35. Investment Intent. The Seller represents that the Purchaser Shares are being acquired by it in good faith solely for its own account, for investment and without any view toward resale or other distribution thereof and that it is familiar with Rule 144 promulgated under the Securities Act, as presently in effect, and understands the resale limitations imposed thereby and otherwise by the Securities Act. The Seller does not have any contract, undertaking or arrangement with any Person to sell, transfer or grant participation with respect to any of the Seller's interest in the Purchaser Shares. The Seller will not offer, sell, pledge, hypothecate or otherwise dispose of the Purchaser Shares except in compliance with the registration requirements or exemption provisions of the Securities Act and any applicable U.S. state and non-U.S. securities act and the rules and regulations under any such acts.

4.36. Purchaser Status. The Seller is not a "U.S. Person" (within the meaning of Rule 902 of Regulation S) and is not acquiring the Purchaser Shares for the account or benefit of any "U.S. Person"; and will purchase the Purchaser Shares in an "offshore transaction" (within the meaning of Rule 902 of Regulation S).

4.37. No Brokers. The Seller Group has no Liability of any kind to, and are not subject to any claim of, any broker, finder or agent in connection with the Contemplated Transactions. Neither the acquisition of the Acquired Shares by the Purchaser nor compliance with the terms of this Agreement will entitle any Person to receive from any company in the Acquired Group any finder's fee, royalty, brokerage or commission.

4.38. Disclosure. The representations and warranties contained in this Section 4 (as modified by the Disclosure Letter) disclose all material facts and circumstances relating to the Acquired Assets and, to the best of the knowledge, information and belief of the Seller, there are no other facts or circumstances which render or which might upon their disclosure render any of such facts and circumstances misleading in any material respect or which might reasonably affect the willingness of a purchaser to purchase the Acquired

Assets on the terms of this Agreement. The representations and warranties contained in this Section 4 and in the instruments and certificates furnished by the Seller to Purchaser pursuant to this Agreement do not contain and will not contain any untrue statement of material fact or omit to state any material fact necessary in order to make the statements and information contained herein or therein in light of the circumstances in which they were made not misleading.

5. REPRESENTATIONS AND WARRANTIES OF PURCHASER.

Purchaser represents and warrants to the Seller that:

5.1. Organization. Purchaser is (a) duly organized, validly existing and in good standing under the laws of the State of Delaware and (b) duly qualified to do business and in good standing in each jurisdiction in which the nature of its business or the ownership, leasing or operation of its properties makes such qualification necessary, other than in such jurisdiction where the failure to be so qualified individually or in the aggregate has not had and would not reasonably be expected to have a material adverse effect on Purchaser.

5.2. Power and Authorization. The execution, delivery and performance by Purchaser of this Agreement, and the consummation by Purchaser of the Contemplated Transactions are within the corporate power and authority of Purchaser and have been duly authorized by all necessary action on the part of Purchaser. This Agreement has been duly executed and delivered by Purchaser and, assuming the due authorization, execution and delivery by the Seller, is a legal, valid and binding obligation of Purchaser, Enforceable against Purchaser in accordance with its terms.

5.3. Board Approvals. The Purchaser's board of directors has duly approved and adopted this Agreement and the Contemplated Transactions (subject to, and in accordance with the terms and conditions of, this Agreement).

5.4. Stockholder Vote. No approval of the holder(s) of Equity Interests in the Purchaser or any of its Subsidiaries is required to consummate the Acquisition.

5.5. Capitalization. As of February 18, 2009, 95,168,083 shares of Purchaser Common Stock were issued and outstanding, all of which were validly issued, fully paid and nonassessable and issued free of preemptive rights; and the aggregate maximum number of unissued shares of Purchaser Common Stock which are the subject of any option, warrant or other right to subscribe or otherwise acquire or require the issuance thereof, (whether or not subject to the satisfaction of conditions or currently exercisable) does not exceed 21,363,141 shares of Purchaser Common Stock.

5.6. Issuance of Purchaser Shares. The issuance and delivery of the Purchaser Shares in accordance with this Agreement has been, or will be on or prior to Completion, duly authorized by all necessary corporate action on the part of the Purchaser. The Purchaser Shares when so issued and delivered in accordance with the provisions of this Agreement will be duly and validly issued, fully paid and nonassessable, and free of restrictions on transfer other than restrictions imposed or created under this Agreement or restrictions

required as necessary to qualify this offering as exempt from the registration requirements of the Securities Act or any other applicable law.

5.7. No Encumbrances. The Purchaser Shares will be issued free from any option, right to acquire, mortgage, charge, pledge, or other form of security or encumbrance or equity and, other than the Escrow Agreement, there is no agreement or arrangement to give or create any of the foregoing.

5.8. Authorization of Governmental Authorities. Assuming the accuracy of the Seller's representations in Sections 4.3 and 4.4, no action by (including any authorization, consent or approval), or in respect of, or filing with, any Governmental Authority is required for, or in connection with, the valid and lawful (a) authorization, execution, delivery and performance by Purchaser of this Agreement and the Ancillary Agreements or (b) the consummation of the Contemplated Transactions by Purchaser.

5.9. Noncontravention. Neither the execution, delivery and performance by Purchaser of either this Agreement or the Ancillary Agreements, nor the consummation of the Contemplated Transactions will:

(a) violate any Legal Requirement applicable to Purchaser;

(b) result in a breach or violation of, or default under, any Contractual Obligation of Purchaser;

(c) require any action by (including any authorization, consent or approval) or in respect of (including notice to), any Person under any Contractual Obligation of Purchaser; or

(d) result in a breach or violation of, or default under, Purchaser's Organizational Documents.

5.10. SEC Filings. Purchaser has filed or otherwise transmitted all forms, reports, statements, certifications, and other documents (including all exhibits, amendments and supplements thereto) required to be filed or otherwise transmitted by it with the U.S. Securities and Exchange Commission (the "SEC") since January 1, 2008 and prior to the date hereof (such documents filed since January 1, 2008 and prior to the date hereof, the "SEC Reports"). As of their respective dates, each of the SEC Reports complied as to form in all material respects with the applicable requirements of the Securities Act and the rules and regulations promulgated thereunder and the Exchange Act and the rules and regulations promulgated thereunder, each as in effect on the date so filed. Except to the extent amended or superseded by a subsequent filing with the SEC made prior to the date hereof, as of their respective dates (and if so amended or superseded, then on the date of such subsequent filing), none of the SEC Reports contained any untrue statement of a material fact or omitted to state a material fact required to be stated or incorporated by reference therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

5.11. Financial Statements. The audited consolidated financial statements of Purchaser (including any related notes thereto) included in Purchaser's Annual Report on Form 10-K for the fiscal year ended December 31, 2007 filed with the SEC have been prepared in accordance with GAAP in all material respects applied on a consistent basis throughout the periods involved (except as may be indicated in the notes thereto) and fairly present in all material respects the consolidated financial position of Purchaser and its consolidated Subsidiary at the respective dates thereof and the consolidated statements of operations, cash flows and changes in stockholders' equity for the periods indicated therein. The unaudited consolidated financial statements of Purchaser (including any related notes thereto) for all interim periods included in Purchaser's quarterly reports on Form 10-Q filed with the SEC since January 1, 2008 have been prepared in accordance with GAAP in all material respects applied on a consistent basis throughout the periods involved (except as may be indicated in the notes thereto) and fairly present in all material respects the consolidated financial position of Purchaser and its consolidated Subsidiary at of the respective dates thereof and the consolidated statements of operations and cash flows for the periods indicated therein (subject to normal period-end adjustments).

5.12. Absence of Certain Developments. Except as set forth in the SEC Reports and except as contemplated by this Agreement, since January 1, 2008, Purchaser and its Subsidiary have conducted their business in the Ordinary Course of Business.

5.13. Litigation and Governmental Orders. Except as set forth in the SEC Reports, there is no Action to which Purchaser or its Subsidiary is a party (either as plaintiff or defendant), or to Purchaser's knowledge, threatened, nor, to Purchaser's knowledge, is there any reasonable basis for any of the foregoing. There is no Action which the Purchaser or its Subsidiary presently intends to initiate. Except as set forth in the SEC Reports, no Governmental Order has been issued which is applicable to, or otherwise affects, Purchaser or any or its material assets or its business.

5.14. Circular. None of the information supplied or to be supplied by Purchaser for inclusion or incorporation by reference in the Circular will, at the date it is first mailed to the stockholders of the Seller and at the time of the Stockholders Meeting or at the date of any amendment thereof or supplement thereto, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they are made, not misleading. Notwithstanding the foregoing, Purchaser makes no representation or warranty with respect to any information supplied by the Seller Group or any of its Representatives which is contained or incorporated by reference in the Circular.

5.15. No Brokers. Neither Purchaser nor its Subsidiary has any Liability of any kind to, nor is subject to any claim of, any broker, finder or agent in connection with the Contemplated Transactions for which the Seller could be liable.

6. PERIOD BEFORE COMPLETION.

6.1. Pre-Closing Operation of Business. From the Effective Date until the Completion Date, the Seller will (subject to the duties its directors may have under the Companies Legislation and the common law of England and Wales), and will cause the Acquired Group to, use commercially reasonable efforts to continue to conduct the Business in the Ordinary Course of Business including, without limitation, as may concern:

(a) efforts to maintain the value of the Business as a going concern;

(b) preserving the Business organization and relationships with Third Parties (including licensors, suppliers, customers, and collaborators), executives, employees, and consultants with respect to the Business; and

(c) preserving and protecting the Registered Intellectual Property.

6.2. Purchaser's Consent. Without limiting the generality of Section 6.1, from the Effective Date until the Completion (or, if earlier, termination of this Agreement), Seller represents and warrants that it and the Acquired Group will not, without Purchaser's prior written consent:

(a) take or omit to take any action that would cause the representations and warranties in Section 4 to be untrue at, or as of any time prior to, the Completion; or

(b) take or omit to take any action which, if taken or omitted to be taken between the Half-Yearly Report Date and the Effective Date, would have been required to be disclosed on Schedule 4.11.

6.3. Insurance Policies. With respect of the policies of insurance of the Seller Group or the policies of insurance in which the Seller Group has an interest as of the Effective Date, except where it or they have received the prior written consent of Purchaser, between the Effective Date and Completion (or, if earlier, termination of this Agreement):

(a) such policies will be maintained in full force and effect;

(b) the Seller Group will not do or omit to do anything the doing or omission of which would or might make any of such policies void or voidable;

(c) the Seller Group will not do or omit to do anything the doing or omission of which would or might entitle any of the insurers under such policies to refuse cover in relation to any claim (either in whole or in part) or result in an increase in the premium payable under any of such policies; and

(d) the Seller will notify the Purchaser of any claim arising under any of such policies on or after the date of this Agreement and will notify the insurers

promptly and make any such claim in accordance with the terms of the relevant policy.

6.4. Release by Seller.

(a) Seller confirms that at Completion it will have no claim (whether in respect of any breach of contract, compensation for loss of office or monies due to it or on any account whatsoever) outstanding against any member of the Acquired Group or against any of the directors, officers, employees or other Representatives of the Acquired Group, and that no agreement or arrangement is outstanding under which any member of the Acquired Group has or could have any obligation of any kind to the Seller.

(b) To the extent that any such claim or obligation described in Section 6.4(a) exists or may exist, Seller irrevocably and unconditionally waives such claim or obligation and releases each member of the Acquired Group and any such other Persons from any liability whatsoever in respect of such claim or obligation.

(c) Each member of the Acquired Group and any stockholder, director, officer, employee or other Representatives of any of them may enforce the terms of this Section 6.4 provided always that, as a condition thereto, any such Third Party will (i) obtain the prior written consent of the Purchaser; and (ii) not be entitled to assign its rights under this Section 6.4.

7. ADDITIONAL COVENANTS.

7.1. Completion. In order to expedite the Completion:

(a) Seller will keep the Purchaser regularly informed of the progress towards satisfaction of the Conditions;

(b) Seller will promptly notify the Purchaser in writing as soon as Seller is aware that any Condition has been satisfied (or has become incapable of satisfaction) and, if applicable, produce to the Purchaser such evidence as the Purchaser may reasonably require of the satisfaction of such Condition.

7.2. Notifications. The Seller Group agrees, in the period from the Effective Date to the Completion Date, to:

(a) with respect to any Acquired Product, (i) notify as early as reasonably practicable in advance of all meetings and communications with representatives of the FDA or other Governmental Authorities, and (ii) promptly forward to Purchaser copies of all regulatory filings, applications, requests and other written communications to the FDA or other Governmental Authorities prior to submission thereto, and written communications received from representatives of the FDA or other Governmental Authorities;

(b) notify Purchaser promptly prior to making any material change to a research or study protocol, adding new studies or collaborations, making any material change to a manufacturing plan or process or making a material change to a development timeline for any Acquired Product; and

(c) give prompt notice upon the filing by the Acquired Group of any new inventions or Patent applications or, in the case of filings for new inventions or Patent applications for which the Acquired Group does not have filing responsibility, the Seller will give prompt notice upon becoming aware of any such filings or any Patent applications that claim priority to any applications listed on Schedule 4.15(a), and to update Schedule 4.15(a) at the Completion to include all such inventions or Patent applications.

7.3. Notices and Consents.

(a) The Seller will give all reasonably necessary notices to, make all reasonably necessary filings with and use its commercially reasonable efforts to obtain all authorizations, consents or approvals from, any Governmental Authority or other Person that are set forth on Schedule 7.3(a) of the Disclosure Letter or as otherwise reasonably requested by Purchaser in order to consummate the Contemplated Transactions.

(b) Each of the Parties hereto agrees to use commercially reasonable efforts to cooperate with the other Party in the timely preparation and filing of any filings under merger notification laws or applicable securities or corporate Legal Requirements in order to consummate the Contemplated Transactions.

(c) Each of the Parties hereto will use its commercially reasonable efforts to cooperate with the other Party in connection with any filing and in connection with any investigation by any Governmental Authority related to the Contemplated Transactions, promptly inform the other Party of any communications received or given by such Party to any Governmental Authority related to the Contemplated Transactions, and permit the other Party to review any communication given by it and consult with each other in advance of any meeting or conference, and to the extent appropriate or permitted by the applicable Governmental Authority, give the other Party the opportunity to attend and participate in such meetings and conferences.

7.4. Purchaser's Access to Premises.

(a) Subject to applicable Legal Requirements, from the Effective Date until the Completion Date (or such earlier date as this Agreement may be terminated pursuant to Section 10), the Seller will permit Purchaser and its Representatives to have commercially reasonable access (at reasonable times during business hours and upon reasonable notice) to senior executives of the Seller Group and to premises, properties, books, records (including Tax records with respect to Taxes affecting the Acquired Assets or the Business), contracts, financial and operating

data and information and documents of the Acquired Group and/or the Business and make copies of such books, records, contracts, data, information and documents as Purchaser or its Representatives may reasonably request. The Purchaser acknowledges that all such books, records, contracts, data, information and documents thereby accessed by the Purchaser and/or its Representatives comprise confidential and proprietary information of the Seller and its Subsidiaries and will be subject to the terms of the confidentiality agreement between the Seller and the Purchaser dated November 28, 2008 (the "Confidentiality Agreement"). The Parties further agree that upon Completion the Confidentiality Agreement will cease to be thereafter enforceable by the Seller in so far as it concerns information which is confidential to the Acquired Group.

(b) Subject to applicable legal requirements, from and after the Completion, the Seller will afford to Purchaser and its Representatives reasonable access and duplicating rights (at the expense of Purchaser), during normal business hours and upon reasonable advance notice, to all information (including reasonable access to a knowledgeable employee or Representative of the Seller to discuss such information) within the possession or control of the Seller, in each case insofar as such access is reasonably required for a reasonable purpose. Without limiting the foregoing, information may be requested under this Section 7.4(b) for audit, accounting, claims, litigation and tax purposes, as well as for purposes of fulfilling disclosure and reporting obligations.

(c) Subject to applicable legal requirements, for a period of six years from the Completion Date, the Purchaser will afford to Seller and its Representatives Reasonable access and duplicating rights (at the expense of Seller), during normal business hours and upon reasonable advance notice, to all information (including reasonable access to a knowledgeable employee or Representative of the Acquired Group to discuss such information) within the possession or control of the Acquired Group (insofar as the same relates to matters occurring on or before the Completion Date), in each case insofar as such access is reasonably required for a reasonable and bona fide non-commercial purpose of concern to the Seller post-Completion. Without limiting the foregoing, information may be requested under this Section 7.4(c) for audit, accounting, claims, litigation and tax purposes, as well as for purposes of fulfilling disclosure and reporting obligations.

7.5. Notice of Developments. From the Effective Date until the Completion Date, the Seller will give Purchaser prompt written notice upon becoming aware of (i) any material development affecting the Acquired Assets, the Assumed Liabilities or the Business, (ii) any material development adversely affecting the financial condition of any member of the Acquired Group, or (iii) any event or circumstance (including for the avoidance of doubt any omission) which reasonably could be expected to result in any of the Seller's representations or warranties contained in this Agreement being unfulfilled, untrue, inaccurate, or misleading at Completion; *provided*, *however*, that no such disclosure will be deemed to amend, supplement, prevent, or cure any such breach of, or inaccuracy in, any of the representations and warranties set forth in this Agreement. If so requested by

the Purchaser, Seller will use its commercially reasonable efforts at its own expense to prevent or remedy such a breach.

7.6. Stockholder Consent.

(a) The Purchaser will provide to the Seller such information as the Seller may reasonably request (or, in any event, if required by applicable Legal Requirements) for inclusion or incorporation by reference in the Circular and will thereafter promptly notify the Seller in writing if such information thereafter becomes untrue or misleading, and in such circumstances the Purchaser will promptly provide to the Seller such further information in writing as reasonably necessary by way of amendment or supplement correcting such untrue or misleading statement. Notwithstanding the foregoing, the Seller acknowledges and agrees that the Purchaser will not be obligated to provide any pro forma or other financial information of the Purchaser other than any financial information that is publicly available on the SEC's EDGAR database.

(b) As soon as reasonably practical following the Effective Date, the Seller will take all action necessary under the Companies Legislation, the AIM Rules and the ASX Listing Rules for Companies to (i) publish the Circular (which will contain a unanimous recommendation by the board of directors of the Seller that the stockholders of the Seller should vote in favor of the Acquisition and the resolution to change the name of the Seller) and (ii) duly call, give notice of, convene and thereafter hold a general meeting of its stockholders for the purpose of approving the Acquisition as required by Rule 15 of the AIM Rules for Companies.

7.7. No Negotiation by the Seller

(a) Between the Effective Date and the Completion Date, neither the Seller nor any of its Subsidiaries (nor any of their respective Representatives) will, directly or indirectly, solicit, encourage, initiate or otherwise seek to procure the submission of any proposal, indication of interest or offer of any kind which is reasonably likely to lead to an offer being made for the Seller (or all or any material part of the undertaking or any material assets of the Acquired Group) or the grant, or entry into any agreement or arrangement to grant, any option, warrant, license, right to acquire, non-statutory right of pre-emption, Lien or other similar form of security or encumbrance in relation either to: (x) the unissued shares in the capital of the Seller or (y) the undertaking or any material Assets of the Seller or any of its Subsidiaries (other than a Lien arising by operation of law in the Ordinary Course of Business) (any matter within (x) and/or (y) being a "Competing Proposal").

(b) Neither the Seller nor any Subsidiary of the Seller (nor any of their respective Representatives) will, directly or indirectly enter into (or, if relevant, continue) or participate in any negotiations or arrangement relating to the

implementation of any Competing Proposal or which are reasonably likely to lead to a Competing Proposal being implemented.

(c) The Seller will notify Purchaser in writing within two Business Days of any approach or communication from any Third Party in relation to any potential Competing Proposal which requires (or which is reasonably likely to require) that the directors of the Seller enter into substantive discussions or negotiations concerning such Competing Proposal. Such notification will include reasonable details of such potential Competing Proposal, including details of the identity of such Third Party. If such Competing Proposal is recommended by the directors of the Seller, then notice to Purchaser pursuant to this Section 7.7(c) will be given at least two Business Days prior to any such recommendation being publicly announced.

(d) The foregoing obligations in this Section 7.7 will not preclude the directors of the Seller, to the extent they are compelled to do so to properly discharge their fiduciary duties, from responding to any unsolicited approach or an approach initiated by a third party relating to a Competing Proposal or from complying with its obligations under Rule 20.2 of the UK City Code on Takeovers and Mergers (to the extent that the Panel on Takeovers and Mergers has determined that Rule 20.2 applies in the relevant circumstances).

7.8. Expenses. With respect to the costs and expenses (including legal, accounting, consulting, advisory, printing, mailing and brokerage) incurred in connection with the Contemplated Transactions (the "Transaction Expenses"), Purchaser will have no Liability in respect of the Transaction Expenses of the Seller or the Seller Security Holders, nor will the Seller have any Liability in respect of the Transaction Expenses of Purchaser.

7.9. Confidentiality. The Parties agree that promptly upon execution of this Agreement the Parties will issue a joint press release in the form set out in Exhibit G. Thereafter the Parties agree and acknowledge that the provisions of the Confidentiality Agreement will not prohibit the disclosure of any of the terms of this Agreement (or any Ancillary Agreement) and/or any further information concerning the Contemplated Transactions or Purchaser Common Stock or any information supplied by the Purchaser for inclusion in the Circular, nor the publication and distribution of the Circular (and any supplemental or additional information required thereby). After the Completion, the Seller will hold and treat, and will cause its officers, employees, auditors, and other authorized Representatives to hold and treat, in confidence all Technical Confidential Information.

7.10. Publicity. No public announcement or disclosure may be made by either Party with respect to the subject matter of this Agreement or the Contemplated Transactions without the prior written consent of the other Party; *provided, however*, that the provisions of this Section 7.10 will not prohibit (a) the publication of the Circular or the joint press release in the form set out in Exhibit G, (b) any disclosure required by any applicable Legal Requirement or listing standard of any exchange on which the

disclosing Party's securities are listed or traded (in which case the disclosing Party will provide the other Party with the opportunity to review in advance the disclosure and provide such reasonable comment as may be appropriate by reference to the nature of the disclosure) or (c) any disclosure made in connection with the enforcement of any right or remedy relating to this Agreement or the Contemplated Transactions.

7.11. Registration Rights.

(a) Registration of the Purchaser Shares. Purchaser hereby agrees to prepare and file with the SEC as soon as reasonably practicable, and in any event no later than sixty (60) days, following the Completion (the "Filing Deadline"), a registration statement on Form S-3 (except that if Purchaser is not then eligible to register for resale the Purchaser Shares on Form S-3, then such registration will be on the appropriate form) (together with any other registration statements filed under this Section 7.11 and any preliminary or final prospectus, exhibit, supplement or amendment included therein, the "Registration Statement"), to enable the resale of the Purchaser Shares by the Seller, from time to time, on a continuous basis pursuant to Rule 415 under the Securities Act. Purchaser will use commercially reasonable efforts to cause a Registration Statement to be declared effective as soon as reasonably practicable, and in any event within fifteen (15) days, following the Filing Deadline (the "Required Effective Date") or, in the event of a review of such Registration Statement by the SEC, the Required Effective Date will be as soon as reasonably practicable, and in any event within ninety (90) days, following the Filing Deadline and, subject to exceptions provided herein, to remain continuously effective until the earlier of (A) the date on which all Purchaser Shares have been publicly sold thereunder, or (B) the date on which all of the Purchaser Shares can be sold pursuant to Rule 144 promulgated under the Securities Act (as such rule may be amended from time to time) without any limitations under clauses (c), (e), (f) and (h) thereunder (the "Registration Period"). If Purchaser receives notification from the SEC that a Registration Statement will receive no action or review from the SEC, then Purchaser will use its commercially reasonable efforts to cause such Registration Statement to become effective within three (3) Business Days after such SEC notification.

(b) Registration Procedures. In connection with Purchaser's registration obligations hereunder, Purchaser will:

(i) Prepare and file with the SEC such amendments (including post effective amendments) and supplements to each Registration Statement and any related prospectus (a "Prospectus") used in connection therewith as may be necessary to keep such Registration Statement continuously effective as to the applicable Purchaser Shares for the Registration Period and prepare and file with the SEC such additional Registration Statements in order to register for resale under the Securities Act all of the Purchaser Shares; (2) cause the related Prospectus to be amended or supplemented by any required Prospectus supplement, and, as so supplemented or

amended, to be filed pursuant to Rule 424; (3) respond as promptly as reasonably practicable to any comments received from the SEC with respect to each Registration Statement or any amendment thereto (and in any event within three (3) Business Days of receipt of such SEC comments) and, as promptly as reasonably possible, provide Seller true and complete copies of all correspondence from and to the SEC relating to such Registration Statement that pertains to the Seller as a "Selling Stockholder"; and (4) comply with the provisions of the Securities Act and the Exchange Act with respect to the disposition of all Purchaser Shares covered by a Registration Statement until the expiration of the Registration Period;

(ii) Use commercially reasonable efforts to avoid the issuance of, or, if issued, obtain the withdrawal of (i) any order suspending the effectiveness of a Registration Statement, or (ii) any suspension of the qualification (or exemption from qualification) of any of the Purchaser Shares for sale in any jurisdiction, as soon as practicable;

(iii) If requested by the Seller, furnish to the Seller without charge at least one conformed copy of each Registration Statement and each amendment thereto and all exhibits to the extent requested by the Seller (including those previously furnished or incorporated by reference) promptly after the filing of such documents with the SEC; *provided*, that Purchaser will have no obligation to provide any document pursuant to this clause that is available on the SEC's EDGAR system;

(iv) Cooperate with the Seller to facilitate the timely preparation and delivery of certificates representing Purchaser Shares to be delivered to a transferee pursuant to a Registration Statement, which certificates will be free, to the extent permitted by this Agreement and under law, of all restrictive legends, and to enable such Purchaser Shares to be in such denominations and registered in such names as any such holders may reasonably request. In connection therewith, if required by the Purchaser's transfer agent, Purchaser will promptly after the effectiveness of a Registration Statement cause an opinion of counsel as to the effectiveness of such Registration Statement to be delivered to and maintained with its transfer agent, together with any other authorizations, certificates and directions required by the transfer agent, which authorize and direct the transfer agent to issue such Purchaser Shares without legend upon sale by the holder of such shares of Purchaser Shares under a Registration Statement.

(c) Rule 144 Information. For so long as the Registration Period continues, Purchaser will file in a timely manner all reports required to be filed by it under the Exchange Act and the rules and regulations promulgated thereunder and will take such further action to the extent required to enable the holders to sell the

Purchaser Shares pursuant to Rule 144 under the Securities Act (as such rule may be amended from time to time).

(d) Registration Expenses. All fees and expenses incident to Purchaser's performance of or compliance with its obligations under this Section 7.11 (excluding any underwriting discounts and selling commissions) will be borne by Purchaser whether or not any Purchaser Shares are sold pursuant to a Registration Statement.

(e) Plan of Distribution. Under no circumstances will the Seller distribute (pro rata or otherwise), sell or otherwise transfer any of the Purchaser Shares to any one or more of the Seller Security Holders or adopt any plan or any resolutions relative to the foregoing.

7.12. Noncompetition and Nonsolicitation. For period of ten years from and after the Completion Date, the Seller will not engage directly or indirectly in all or any portion of the Business as conducted or proposed to be conducted by the Seller Group as of the Completion Date, including the research and development of technologies to grow, differentiate, purify, and use adult and embryonic stem cells, whether for the development of therapeutics or to permit the generation of highly purified stem cells and their differentiated progeny for use in genetic, pharmacological and toxicological screens, or otherwise, in the Restricted Territories. For a period of one year from and after the Completion Date, the Seller will not, directly or indirectly, (i) solicit for employment any employee of either the Acquired Group or the Purchaser, (ii) solicit for employment any Person whose employment with the Acquired Group was terminated within six months prior to such solicitation and such termination was not initiated by Purchaser, or (iii) otherwise induce or attempt to induce any such Person to terminate his employment with the Acquired Group or Purchaser (as the case may be). The Seller also agrees that it will not, for a period of five years from and after the Completion Date, either for itself or another Person, solicit, induce or entice any of the Acquired Group's or Purchaser's (as the case may be) Affiliates, customers, clients, or patrons, including, but not limited to, those upon whom the Acquired Group solicited, catered to or with whom the Acquired Group or its Representatives became acquainted with prior to the Completion, to cease doing business with the Acquired Group or Purchaser (as the case may be). If the final judgment of a court of competent jurisdiction declares that any term or provision of this Section 7.12 is invalid or unenforceable, the Parties hereto agree that the court making the determination of invalidity or unenforceability will have the power to reduce the scope, duration, or area of the term or provision, to delete specific words or phrases, or to replace any invalid or unenforceable term or provision with a term or provision that is valid and enforceable and that comes closest to expressing the intention of the invalid or unenforceable term or provision, and this Agreement will be enforceable as so modified after the expiration of the time within which the judgment may be appealed.

7.13. Interim Financing. The Purchaser hereby agrees to enter into a facility agreement with Seller (the "Second Facility Agreement") to provide to the Seller up to a principal amount of US$415,000 in immediately available funds, pursuant to a revolving credit facility in a maximum principal amount of US$415,000 (the "Credit Facility") to be

available for issuance at any time after the Effective Date solely for the working capital purposes and for the paying the Seller's Transaction Expenses or expenses incurred after the Completion Date in connection with the non-trading administrative operations and/or proposed winding up of the Seller; *provided*, *however*, that the Purchaser will not be obligated to loan any amounts under the Credit Facility (a) upon the termination of this Agreement in accordance with its terms or (b) if the Seller has breached in any material respect any of its obligations under this Agreement, the Facility Agreement or the Second Facility Agreement and such breach has not been cured. Amounts drawn under the Credit Facility will be paid and evidenced in accordance with the terms of the Second Facility Agreement.

7.14. Amendment of Form 363. The Seller shall procure that the Company shall, within five (5) business days of the Effective Date, file with the UK Registrar of Companies a copy of the last Form 363 filed by the Company amended in manuscript to show that the Seller is the holder of 4,320,000 A ordinary shares of £0.0001 each and 10,995,000 ordinary shares of £0.0001 each in the capital of the Company. The Seller will use its reasonable best efforts to obtain the Required Stockholder Vote.

7.15. Further Assurances. From and after the Completion Date, upon the request of either the Seller or the Purchaser, each of the Parties hereto will do, execute, acknowledge and deliver all such further acts, assurances, deeds, assignments, transfers, conveyances and other instruments and papers as may be reasonably required or appropriate to carry out the Contemplated Transactions.

8. CONDITIONS TO PURCHASER'S OBLIGATIONS AT THE COMPLETION.

The obligation of the Purchaser to consummate the Acquisition (or any of the Contemplated Transactions) is subject to the fulfillment of each of the following conditions (unless waived by Purchaser in accordance with Section 13.3):

8.1. Representations and Warranties. The representations and warranties of the Seller contained in this Agreement and in any document, instrument or certificate delivered hereunder (a) that are not qualified by materiality or Material Adverse Effect will be true and correct in all material respects at and as of the Completion with the same force and effect as if made as of the Completion and (b) that are qualified by materiality or Material Adverse Effect will be true and correct in all respects at and as of the Completion with the same force and effect as if made as of the Completion, in each case, other than representations and warranties that expressly speak only as of a specific date or time, which will be true and correct as of such specified date or time.

8.2. Performance. The Seller will have performed and complied in all material respects, with all agreements, obligations and covenants contained in this Agreement and the Ancillary Agreements that are required to be performed or complied with by it at or prior to the Completion.

8.3. No Material Adverse Change. Since the Effective Date, there will have occurred no events nor will there exist circumstances which singly or in the aggregate have resulted in a Material Adverse Effect.

8.4. Compliance Certificate. The Seller will have delivered to Purchaser a certificate (signed by its president and its chief financial officer) to the effect that each of the conditions set forth in Sections 8.1, 8.2, 8.3, 8.5, 8.6, 8.7, 8.8, 8.9 and 8.10 have been satisfied.

8.5. Qualifications. No provision of any applicable Legal Requirement and no Governmental Order will prohibit the consummation of any of the Contemplated Transactions.

8.6. Absence of Litigation. No Action will be pending or threatened in writing by a Governmental Authority which may result in a Governmental Order (nor will there be any Governmental Order in effect) (a) which would prevent consummation of any of the Contemplated Transactions, (b) which would result in any of the Contemplated Transactions being rescinded following consummation, (c) which would limit or otherwise adversely affect the right of Purchaser to own the Acquired Assets, or to operate all or any material portion of either the Business or the Acquired Assets or (d) would compel Purchaser to dispose of all or any material portion of either the Business or the Acquired Assets or the business or assets of Purchaser or any of its Affiliates.

8.7. Consents, etc. Subject to Section 2.8, all actions by (including any authorization, consent or approval) or in respect of (including notice to), or filings with, any Governmental Authority or other Person that are required to consummate the Contemplated Transactions, all of which will have been obtained or made, in a manner reasonably satisfactory in form and substance to Purchaser, and no such authorization, consent or approval will have been revoked.

8.8. Required Third Party Consents. The Seller shall have delivered to Purchaser the consent, approval and waiver required under the agreements set forth on Schedule 8.8 in connection with the Contemplated Transactions.

8.9. Stockholder Approval. The Required Stockholder Vote will have been obtained in accordance with the requirements described in Section 7.6.

8.10. Discharge of Liens. All Liens on the Acquired Assets (other than the Permitted Liens) will have been discharged and released.

8.11. Compromise Agreements. Each of the individuals listed on Schedule 3.4(t) will have executed a compromise agreement with the Company in form and substance reasonably satisfactory to the Purchaser.

9. CONDITIONS TO SELLER'S OBLIGATIONS AT THE COMPLETION.

The obligation of the Seller to consummate the Acquisition (or any of the Contemplated Transactions) is subject to the fulfillment of each of the following conditions (unless waived by the Seller in accordance with Section 13.3):

9.1. Representations and Warranties. The representations and warranties of Purchaser contained in this Agreement and in any document, instrument or certificate delivered hereunder (a) that are not qualified by materiality or material adverse effect will be true and correct in all material respects at and as of the Completion with the same force and effect as if made as of the Completion and (b) that are qualified by materiality or material adverse effect will be true and correct in all respects at and as of the Completion with the same force and effect as if made as of the Completion, in each case, other than representations and warranties that expressly speak only as of a specific date or time, which will be true and correct as of such specified date or time.

9.2. Performance. Purchaser will have performed and complied with, in all material respects, all agreements, obligations and covenants contained in this Agreement that are required to be performed or complied with by Purchaser or at or prior to the Completion.

9.3. Compliance Certificate. Purchaser will have delivered to the Seller a certificate to the effect that each of the conditions set forth in Sections 9.1 and 9.2 have been satisfied.

9.4. Qualifications. No provision of any applicable Legal Requirement and no Governmental Order will prohibit the consummation of any of the Contemplated Transactions.

9.5. Absence of Litigation. No Action will be pending or threatened by a Governmental Authority in writing against the Seller which may result in a Governmental Order, nor will there be any Governmental Order in effect, (a) which would prevent consummation of any of the Contemplated Transactions or (b) which would result in any of the Contemplated Transactions being rescinded following consummation (and no such Governmental Order will be in effect).

9.6. Stockholder Approval. The Required Stockholder Vote will have been obtained in accordance with the requirements described in Section 7.6.

9.7. Issuance of Purchaser Shares. All necessary actions and authorizations will have been taken by the Purchaser to issue the Purchaser Shares to the Seller at Completion in accordance with this Agreement.

9.8. Release and Waiver. The waiver and release by the Purchaser of all right, title and interest (including, without limitation, all right to repayment of all loan monies and accrued interest) in respect of all monies outstanding (and all other Liabilities of the Seller) under the Facility Agreement and the Second Facility Agreement (and to release all liens, charges and other security interests granted in respect thereof).

10. TERMINATION.

10.1. Termination of Agreement. This Agreement may be terminated (the date on which the Agreement is terminated, the "Termination Date") at any time prior to the Completion:

(a) by mutual written consent of the Purchaser and Seller;

(b) by the Purchaser by providing written notice to the Seller at any time beginning 60 days after the Effective Date (the "Purchaser Drop Dead Date") if the Completion will not have occurred by reason of the failure of any condition set forth in Section 8 to be satisfied (unless such failure is the result of one or more breaches or violations of, or inaccuracy in any covenant, agreement, representation or warranty of this Agreement by the Purchaser);

(c) by the Seller by providing written notice to the Purchaser at any time beginning 60 days after the date of this Agreement (the "Seller Drop Dead Date") if the Completion will not have occurred by reason of the failure of any condition set forth in Section 9 to be satisfied (unless the failure to meet the conditions set forth in Section 9 is the result of one or more breaches or violations of, or inaccuracy in any covenant, agreement, representation, or warranty of this Agreement by the Seller);

(d) by either the Purchaser or Seller if a final non appealable Governmental Order permanently enjoining, restraining or otherwise prohibiting the Completion will have been issued by a Governmental Authority of competent jurisdiction;

(e) by Purchaser if either:

(i) there is a breach of, or inaccuracy in, any representation or warranty of the Seller contained in this Agreement as of the Effective Date or as of any subsequent date (other than representations or warranties that expressly speak only as of a specific date or time, with respect to which Purchaser's right to terminate will arise only in the event of a breach of, or inaccuracy in, such representation or warranty as of such specified date or time); or

(ii) the Seller has breached or violated in any material respect any of its covenants and agreements contained in this Agreement, which breach or violation, in the case of either clause (i) or (ii) above, would give rise, or would reasonably be expected to give rise, to a failure of a Condition set forth in Section 8 and cannot be or has not been cured on or before the earlier of five (5) Business Days before the Purchaser Drop Dead Date or ten (10) Business Days after Purchaser notifies the Seller of such breach or violation;

(f) by the Seller if either:

(i) there is a breach of, or inaccuracy in, any representation or warranty of Purchaser contained in this Agreement as of the Effective Date or as of any subsequent date (other than representations or warranties that expressly speak only as of a specific date or time, with respect to which the Seller's right to terminate will arise only in the event of a breach of, or inaccuracy in, such representation or warranty as of such specified date or time); or

(ii) the Purchaser has breached or violated in any material respect any of its covenants and agreements contained in this Agreement, which breach or violation, in the case of either clause (i) or (ii) above, would give rise, or would reasonably be expected to give rise, to a failure of a Condition set forth in Section 9 and cannot be or has not been cured on or before the earlier of five (5) Business Days before the Seller Drop Dead Date or ten (10) Business Days after the Seller notifies Purchaser of such breach or violation;

(g) by the Purchaser if the Required Stockholder Vote has not been delivered to the Purchaser in accordance with Section 7.6 prior to sixty (60) days following the Effective Date; or

(h) by the Seller if the Required Stockholder Vote has not been delivered to the Purchaser in accordance with Section 7.6 prior to sixty (60) days following the Effective Date provided that, prior to that date (i) the directors of the Seller have unanimously recommended (and have not withdrawn or amended such recommendation unless required to do so in order to comply with their fiduciary duties as a director of Seller and/or their obligations under the Code, the general law or any applicable rules or regulations) that the stockholders of the Seller should vote in favor of the Acquisition, (ii) the Seller has caused a valid general meeting of its stockholders to be duly convened and thereafter held and not adjourned at which the stockholders were asked to approve the Acquisition as required by Rule 15 of the AIM Rules for Companies and (iii) the Seller is not at that time, and has not been prior to that time, in breach of its obligations under Section 7.6 or Section 7.7.

10.2. Effect of Termination.

(a) In the event of the termination of this Agreement pursuant to Section 10.1, this Agreement, other than the provisions of Sections 4.37 and 5.15 (No Brokers), 7.8 (Expenses), 7.9 (Confidentiality), 7.10 (Publicity), 13.8 (Governing Law), 13.9 (Jurisdiction; Venue; Service of Process), 13.11 (Waiver of Jury Trial) and this Section 10.2, will then be null and void and have no further force and effect and all other rights and Liabilities of the Parties hereunder will terminate without any Liability of either Party to any other Person, except for Liabilities arising in respect of breaches under this Agreement by either Party on or prior to the Termination Date.

11. INDEMNIFICATION.

11.1. Indemnification by the Seller. Subject to the limitations set forth in this Section 11, Purchaser and each of its Affiliates, and the Representatives and Affiliates of each of the foregoing Persons (each, a "Purchaser Indemnified Person") will be indemnified by the Seller and held harmless from, against and in respect of any and all Actions, Liabilities, Governmental Orders, Liens, losses, damages, bonds, dues, assessments, fines, penalties, Taxes, fees, costs (including costs of investigation, defense and enforcement of this Agreement), expenses or amounts paid in settlement (in each case, including reasonable attorneys' and experts fees and expenses), whether or not involving a Third Party Claim (collectively, "Losses"), incurred or suffered by Purchaser Indemnified Persons or any of them on or after the Completion as a result of, arising out of or relating to, directly or indirectly:

(a) any fraud or intentional misrepresentation of the Seller or any other entity within the Seller Group;

(b) any breach of, or inaccuracy in, any representation or warranty made by the Seller in this Agreement or in any Ancillary Agreement or any Schedule, instrument or certificate delivered pursuant to this Agreement (in each case, as such representation or warranty would read if all qualifications as to materiality, including each reference to the defined term "Material Adverse Effect," were deleted therefrom; and, in the case of Section 4.15 (Intellectual Property), as such representations or warranties would read if all qualifications as to the Seller's Knowledge were deleted therefrom);

(c) any breach or violation of any covenant or agreement of the Seller (including under this Section 11) in this Agreement or any Ancillary Agreement;

(d) Transaction Expenses of the Seller or its Subsidiaries;

(e) the Excluded Assets or the Excluded Liabilities;

(f) the application or the alleged application of the Transfer of Undertakings (Protection of Employment) Regulations 2006 including but not limited to any failure to inform or consult any employee and/or the termination of employment of any employee whose contract of employment transfers to the Acquired Group under TUPE by reason of, or in connection with, this Agreement;

(g) any circumstances in which Lorna Peers and/or Giorgio Reggiani are held or claim to be employees of the Seller and/or employees of any of the Operating Subsidiaries including in relation to any employee right, entitlement or benefit, income tax, national insurance contributions and any other form of taxation or social security cost; or

(h) any liability under PAYE and/or any employer or employee national insurance contributions (or the overseas equivalents) arising as a result of the vesting or exercise of such Awards, any liability attaching to a member of the

Acquired Group being deemed to be a liability of the Purchaser for the purpose of assessing the Purchaser's loss. To the extent that any member of the Acquired Group has any outstanding liability or obligation to the Seller in respect of the Awards, the Seller shall irrevocably and unconditionally release or procure the release of such liability or obligation with effect from Completion.

11.2. Monetary Limitations. The Seller will have no obligation to indemnify Purchaser Indemnified Persons pursuant to Section 11.1(b) or Section 11.1(c), unless the aggregate amount of all such Losses incurred or suffered by Purchaser Indemnified Persons exceeds US$35,000 (the "Indemnification Threshold") (at which point Purchaser Indemnified Persons will be indemnified for all such Losses, including the amount of the Indemnification Threshold and not only to the extent such Losses exceed the Indemnification Threshold), and the aggregate liability of the Seller with respect to any and all claims for Losses pursuant to Section 11.1(b) or 11.1(c) will not exceed the aggregate value of the Escrowed Shares as of the Completion Date (the "Indemnification Limit"). Claims for indemnification pursuant to Section 11.1(a), 11.1(d), 11.1(e), 11.1(f), 11.1(g) or 11.1(h) are not subject to the monetary limitations set forth in this Section 11.2.

11.3. Indemnity by the Purchaser. Subject to the limitations set forth in this Section 11, the Seller and each of its Affiliates, and the Representatives and Affiliates of each of the foregoing Persons (each, a "Seller Indemnified Person"), will be indemnified by the Purchaser and held harmless from and against and in respect of any and all Losses incurred or suffered by the Seller Indemnified Persons or any of them on or after the Completion as a result of, arising out of or relating to, directly or indirectly:

(a) any breach of, or inaccuracy in, any representation or warranty made by Purchaser in this Agreement (as such representation or warranty would read if all qualifications as to materiality, including each reference to the term "material adverse effect," were deleted therefrom);

(b) any breach or violation of any covenant or agreement of Purchaser in or pursuant to this Agreement; or

(c) the Assumed Liabilities.

11.4. Monetary Limitations. Purchaser will have no obligation to indemnify the Seller pursuant to Section 11.3(a) or Section 11.3(b) unless and until the aggregate amount of all such Losses incurred or suffered by the Seller Indemnified Persons exceeds the Indemnification Threshold (at which point and Purchaser will indemnify the Seller Indemnified Persons for all such Losses, including the amount of the Indemnification Threshold and not only to the extent such Losses exceed the Indemnification Threshold), and the Purchaser's aggregate liability with respect to any and all claims for Losses pursuant to Section 11.3(a) or 11.3(b) will not exceed the Indemnification Limit. Claims for indemnification pursuant to Section 11.3(c) are not subject to the monetary limitations set forth in this Section 11.4.

11.5. Time for Claims. All of the representations and warranties set forth in this Agreement, the Disclosure Letter or any Ancillary Agreement, instrument or certificate delivered pursuant to this Agreement will survive the Completion. No claim may be made or suit instituted seeking indemnification pursuant to Section 11.1 or 11.3 unless a written notice describing such claim in reasonable detail, in light of the circumstances then known to the Indemnified Party, is provided to the Indemnifying Party within twelve (12) months of the Completion, other than claims based upon fraud or intentional misrepresentation, which may be brought at any time prior to the expiration of the applicable statute of limitations. Where such written notice of a claim is to be provided by the Indemnified Party to the Indemnifying Party, then (subject to any further written agreement concerning the conduct of such claim as may be entered into by the Parties by way of settlement or otherwise) unless legal proceedings have been commenced by being both issued and served on the Indemnifying Party by the Indemnified Party within six (6) months of the date such written notice of claim was first given, then such written notice of claim shall be deemed withdrawn and all rights of the Indemnified Party against the Indemnifying Party in respect of such claim shall lapse.

11.6. Third Party Claims.

(a) Notice of Claim. If any third party notifies an Indemnified Party with respect to any matter (a "Third Party Claim") which may give rise to an Indemnity Claim against an Indemnifying Party under this Section 11, then the Indemnified Party will promptly give written notice to the Indemnifying Party; *provided*, *however*, that no delay on the part of the Indemnified Party in notifying the Indemnifying Party will relieve the Indemnifying Party from any obligation under this Section 11, except to the extent such delay actually and materially prejudices the Indemnifying Party.

(b) Assumption of Defense, etc. The Indemnifying Party will be entitled to participate in the defense of any Third Party Claim that is the subject of a notice given by the Indemnified Party pursuant to Section 11. In addition, the Indemnifying Party will have the right to defend the Indemnified Party against the Third Party Claim with counsel of its choice reasonably satisfactory to the Indemnified Party so long as (i) the Indemnifying Party gives written notice to the Indemnified Party within fifteen (15) days after the Indemnified Party has given notice of the Third Party Claim that the Indemnifying Party will indemnify the Indemnified Party from and against the entirety of any and all Losses the Indemnified Party may suffer resulting from, arising out of, relating to, in the nature of, or caused by the Third Party Claim, (ii) the Indemnifying Party provides the Indemnified Party with evidence reasonably acceptable to the Indemnified Party that the Indemnifying Party will have adequate financial resources to defend against the Third Party Claim and fulfill its indemnification obligations hereunder, (iii) the Third Party Claim involves only money damages and does not seek an injunction or other equitable relief against the Indemnified Party, (iv) the Indemnified Party has not been advised by counsel that an actual or potential conflict exists between the Indemnified Party and the Indemnifying Party in connection with the defense of the Third Party Claim, (v) the Third Party

Claim does not relate to or otherwise arise in connection with Taxes, Intellectual Property, or any criminal or regulatory enforcement Action, (vi) settlement of, an adverse judgment with respect to or the Indemnifying Party's conduct of the defense of the Third Party Claim is not, in the good faith judgment of the Indemnified Party, likely to be adverse to the Indemnified Party's reputation or continuing business interests (including its relationships with current or potential customers, suppliers or other parties material to the conduct of its business) and (viii) the Indemnifying Party conducts the defense of the Third Party Claim actively and diligently. The Indemnified Party may retain separate co-counsel at its sole cost and expense and participate in the defense of the Third Party Claim, subject to the terms and conditions of this Section 11.6.

(c) Limitations on Indemnifying Party. The Indemnifying Party will not consent to the entry of any judgment or enter into any compromise or settlement with respect to the Third Party Claim without the prior written consent of the Indemnified Party, not to be unreasonably delayed, preconditioned or withheld, unless such judgment, compromise or settlement (i) provides for the payment by the Indemnifying Party of money as sole relief for the claimant, (ii) results in the full and general release of Purchaser Indemnified Persons or Seller Indemnified Persons, as applicable, from all liabilities arising or relating to, or in connection with, the Third Party Claim and (iii) involves no finding or admission of any violation of Legal Requirements or the rights of any Person and no effect on any other claims that may be made against the Indemnified Party.

(d) Indemnified Party's Control. If the Indemnifying Party does not deliver the notice contemplated by clause (i) and the evidence contemplated by clause (ii) of Section 11.6(b) within fifteen (15) days after the Indemnified Party has given notice of the Third Party Claim, or otherwise at any time fails to conduct the defense of the Third Party Claim diligently, the Indemnified Party may defend, and may consent to the entry of any judgment or enter into any compromise or settlement with respect to, the Third Party Claim in any reasonable manner. If such notice and evidence is given on a timely basis and the Indemnifying Party conducts the defense of the Third Party Claim diligently but any of the other conditions in Section 11.6(b) is or becomes unsatisfied, the Indemnified Party may defend, and may consent to the entry of any judgment or enter into any compromise or settlement with respect to, the Third Party Claim; *provided*, *however*, that the Indemnifying Party will not be bound by the entry of any such judgment consented to, or any such compromise or settlement effected, without its prior written consent (which consent will not be unreasonably withheld, preconditioned or delayed). In the event that the Indemnified Party conducts the defense of the Third Party Claim pursuant to this Section 11.6(d), the Indemnifying Party will (a) advance the Indemnified Party promptly and periodically for the costs of defending against the Third Party Claim (including reasonable attorneys' fees and expenses) and (b) remain responsible for any and all other Losses that the Indemnified Party may incur or suffer resulting from, arising out of, relating to, in the nature of or caused by the Third Party Claim to the fullest extent provided in this Section 11; *provided*, *however*, that in the event

that it is finally determined by a Governmental Authority that the Indemnified Party was not entitled to be indemnified by the Indemnifying Party under this Section 11, then the Indemnified Party will reimburse the Indemnifying Party for the amounts advanced to the Indemnified Party under clause (a) of this Section 11.6(d).

(e) Consent to Jurisdiction Regarding Third Party Claim. Purchaser and Seller, each in its or their capacity as an Indemnifying Party, hereby consent to the non-exclusive jurisdiction of any court in which any Third Party Claim may be brought against any Indemnified Party for purposes of any claim which such Indemnified Party may have against such Indemnifying Party pursuant to this Agreement in connection with such Third Party Claim.

11.7. Source for Indemnification. The sole and exclusive right of recourse of any claim made by a Purchaser Indemnified Person under Section 11.1(b) or 11.1(c) will be to the Escrowed Shares. For the avoidance of doubt, the Seller will have no liability in respect of any claim made by any Purchaser Indemnified Person under Section 11.1(b) or 11.1(c) other than to the extent the liability of the Seller in respect thereof may be satisfied by a release of Escrowed Shares valued in accordance with this Section 11.7 (and to the extent no Escrowed Shares are available for such release, the Seller shall have no further liability whatsoever with respect to any such claim). Claims for indemnification pursuant to Section 11.1(a), 11.1(d), 11.1(e) , 11.1(f). 11.1(g) and 11.1(h) are not subject to the limitations set forth in this Section 11.7. For purposes of determining the number of Escrowed Shares to be distributed with respect to any claim for indemnification pursuant to this Section 11, the value of one share of Purchaser Common Stock will determined in accordance with the Valuation Methodology on the date of the notice given to the Escrow Agent with respect to the distribution of such shares.

11.8. Knowledge and Investigation. The right of any Purchaser Indemnified Person or Seller Indemnified Person to indemnification pursuant to this Section 11 will not be affected by any investigation conducted or knowledge acquired (or capable of being acquired) at any time, whether before or after the execution and delivery of this Agreement or the Completion, with respect to the accuracy of any representation or warranty, or performance of or compliance with any covenant or agreement, referred to in Sections 4, 6 and 7. The waiver of any condition contained in this Agreement or any Ancillary Agreement based on the breach of any such representation or warranty, or on the performance of or compliance with any such covenant or agreement, will not affect the right of any Purchaser Indemnified Person or Seller Indemnified Person, as applicable, to indemnification pursuant to this Section 11 based on such representation, warranty, covenant, or agreement.

11.9. Remedies Exclusive. The rights of each Purchaser Indemnified Person and each Seller Indemnified Person under this Section 11 will be the sole and exclusive remedy, both at law or in equity, for any Losses arising in any way out of this Agreement.

11.10. Right of Termination Only. The provisions of this Section 11 shall be without prejudice to the provisions of Section 10. Prior to the issuance of the Escrowed Shares at

Completion, the sole and exclusive remedy of the Purchaser under this Agreement for any breach of, or inaccuracy in, any representation or warranty made by the Seller in this Agreement, if so permitted in accordance with the provisions of Section 10.1(e), will be to terminate this Agreement pursuant to Section 10.

11.11. Adjustment to Acquisition Consideration. Any payments made to an Indemnified Party pursuant to this Section 11 will be treated as an adjustment to the Purchase Price for Tax purposes, except as otherwise required by applicable Legal Requirements.

11.12. No Double Recovery. Neither Party will be entitled to recover damages or otherwise obtain reimbursement or restitution more than once in respect of the same Losses.

12. TAX MATTERS.

12.1. Transfer Taxes. All transfer, stamp, documentary, sales, use, registration, value-added, and other similar Taxes (including all applicable real estate transfer taxes) and related penalties, interest and additions to Taxes incurred in connection with this Agreement and the transactions contemplated hereby ("Transfer Taxes") imposed by any relevant Taxing Authority (including any domestic federal, state, local or similar taxing authority) will be borne by Purchaser. Each Party, at its own cost, will make all commercially reasonable efforts and take such commercially reasonable actions to avail itself of all available exemptions to or reductions of such Transfer Taxes as reasonably requested by the other Party, and will otherwise cooperate with the other Party to avail itself of such exemptions to or reductions available pursuant to applicable Law.

12.2. Reasonable Cooperation. The Seller and Purchaser, at their own respective costs, will provide reasonable cooperation and information to each other in connection with (i) the preparation or filing of any Tax Return, amended Tax Return, Tax election, Tax consent or certification, or any claim for a Tax refund, (ii) any determination of liability for Taxes, and (iii) any audit, examination or other proceeding in respect of Taxes exclusively related to the Business. Any information obtained under this Section 12.2 will be kept strictly confidential (save to the extent otherwise known to such recipient Party other than by disclosure by such other Party or disclosure is required by law or such disclosure is made with the consent of the other Party), except as may be otherwise necessary in connection with the filing of Tax Returns, claims for a Tax refund or in conducting any audit, examination or other proceeding in respect of Taxes or as may be required to be disclosed by applicable law.

12.3. Filing of Tax Returns.

12.3.1. The Seller will during the 12 months subsequent to the Completion Date, provide reasonable assistance to the Purchaser and the Acquired Group in relation to the preparation by the Acquired Group of all reports and Tax Returns required to be submitted by the Acquired Group by Applicable Law relating to any pre-Completion Tax Periods (or any Tax Period current as of the Completion Date, insofar as concerns any period prior to the Completion Date). The Seller will procure that:

(a) the Purchaser is kept fully informed of the progress of all matters relating to the pre-Completion Tax Periods;

(b) the Purchaser promptly receives copies of all material written correspondence with any Taxing Authority insofar as it is relevant to the pre-Completion Tax Periods; and

(c) the Purchaser is afforded a reasonable opportunity to comment on all returns, claims, notices or other documents relating to Taxes (each, a "Tax Document") or other non-routine correspondence before its submission to the relevant Taxing Authority and that its reasonable comments are taken into account (provided that, if the Purchaser fails to comment within fifteen Business Days of receipt, the Sellers will be entitled to submit the relevant Tax Document or correspondence to the relevant Taxing Authority without further reference to the Purchaser).

12.3.2. The Parties shall each use their commercially reasonable efforts to ensure that:

(a) no Tax Document is submitted to any Taxing Authority which is not true and accurate in all material respects; and

(b) the pre-Completion Tax Periods affairs of the Acquired Group are finalized as soon as reasonably practicable.

12.3.3. In relation to the accounting period accounting current at Completion, the Purchaser will provide to the Seller the draft Tax computations and Returns of the members of the Acquired Group and will ensure that the reasonable and timely comments of the Sellers or their duly authorized agents (to the extent relating to the period when the members of the Acquired Group were under the control of the Sellers) are incorporated prior to the submission of such computations and returns to the relevant Tax Authority.

12.3.4. For the avoidance of doubt the provisions of Sections 12.3.1 through 12.3.3 will not prejudice the allocation of Taxes pursuant to Section 12.4.

12.4. Allocation of Taxes. To the extent not allocated in this Agreement, the Seller will be responsible for, and will promptly pay when due, all Taxes levied with respect to the Acquired Assets attributable to the Pre-Completion Tax Period. All such Taxes levied with respect to the Acquired Assets for the Straddle Period will be apportioned between the Purchaser and the Seller based on the number of days of such Straddle Period included in the Pre-Completion Tax Period and the number of days of such Straddle Period included in the Post-Completion Tax Period. The Seller will be liable for the

proportionate amount of such Taxes attributable to the Acquired Assets that is attributable to the Pre-Completion Tax Period, and Purchaser will be liable for the proportionate amount of such Taxes attributable to the Acquired Assets that is attributable to the Post-Completion Tax Period.

12.5. Reimbursement of Taxes. Upon receipt of any bill for Taxes described in Section 12.4 relating to the Acquired Assets, the Seller and Purchaser will each present a statement to the other setting forth the amount of reimbursement to which each is entitled under Section 12.4, together with such supporting evidence as is reasonably necessary to calculate the proration amount. The proration amount will be paid by the Party owing it to the other within ten (10) days after delivery of such statement. In the event that the Purchaser or Seller will make any payment for which it is entitled to reimbursement under this Section 12, the applicable Party will make such reimbursement promptly but in no event later than ten (10) days after the presentation of a statement setting forth the amount of reimbursement to which the presenting party is entitled along with such supporting evidence as is reasonably necessary to calculate the amount of reimbursement.

13. MISCELLANEOUS.

13.1. Notices. All notices, requests, demands, claims, and other communications required or permitted to be delivered, given or otherwise provided under this Agreement must be in writing and must be delivered, given or otherwise provided:

(a) by hand (in which case, it will be effective upon delivery);

(b) by facsimile (in which case, it will be effective upon receipt of confirmation of good transmission);

(c) by electronic mail with confirmatory copies delivered promptly thereafter by hand or overnight delivery by a nationally recognized courier service (in which case it will be effective upon the later of confirmed receipt of such electronic mail message or the Business Day after being deposited with such courier service); or

(d) by overnight delivery by a nationally recognized courier service (in which case, it will be effective on the Business Day after being deposited with such courier service);

in each case, to the address (or facsimile number) listed below:

If to the Seller, to it at:

Stem Cell Sciences

At its registered office (as registered with the UK Registrar of Companies from time to time), being as follows as of the Effective Date:

Meditrina Building 260
Babraham Research Campus

Cambridge CB22 3A
United Kingdom

with a copy to (which will by itself not constitute notice to the Seller for any purposes under this Agreement):

Dr. Alastair J. Riddell
Holly tree
Whiteball
Wellington
Somerset TA21 0LX
United Kingdom

E-mail: a.j.riddell@btinternet.com
Attention: Alastair Riddell

with a further copy to (which will by itself not constitute notice to the Seller for any purposes under the Agreement):

Morrison & Foerster (UK) LLP
CityPoint
One Ropemaker Street
London
EC2Y 9AW
United Kingdom

Facsimile number: 00 44 20 7496 8532
Attention: James Halstead and Paul Claydon
Email: jhalstead@mofo.com and pclaydon@mofo.com

If to Purchaser, to it at:

3155 Porter Drive
Palo Alto, CA 94304
Facsimile number: 650-475-3129
Attention: Chief Executive Officer
Email: martin.mcglynn@stemcellsinc.com

with a copy to (which will by itself not constitute notice to or Purchaser for any purposes under this Agreement):

Ropes & Gray LLP
One International Place
Boston, Massachusetts 02110
Telephone number: (617) 951-7000

Facsimile number: (617) 951-7050
Attention: Geoffrey Davis, Esq.
Email: Geoffrey.Davis@ropesgray.com

Each of the Parties to this Agreement may specify a different address or facsimile number by giving notice in accordance with this Section 13.1 to the other Party hereto.

13.2. Succession and Assignment; No Third-Party Beneficiary. Subject to the immediately following sentence, this Agreement will be binding upon and inure to the benefit of the Parties hereto and their respective successors and permitted assigns, each of which such successors and permitted assigns will be deemed to be a party hereto for all purposes hereof. No Party may assign, delegate or otherwise transfer either this Agreement or any of its rights, interests, or obligations hereunder without the prior written approval of the other Party. Save as expressly provided in this Agreement, no person who is not a party to this Agreement will have any rights under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Agreement.

13.3. Amendments and Waivers. No amendment or waiver of any provision of this Agreement will be valid and binding unless it is in writing and signed, in the case of an amendment, by the Purchaser and Seller, or in the case of a waiver, by the Party against whom the waiver is to be effective. No waiver by any Party of any breach or violation or, default under or inaccuracy in any representation, warranty or covenant hereunder, whether intentional or not, will be deemed to extend to any prior or subsequent breach, violation, default of, or inaccuracy in, any such representation, warranty or covenant hereunder or affect in any way any rights arising by virtue of any prior or subsequent such occurrence. No delay or omission on the part of any Party in exercising any right, power or remedy under this Agreement will operate as a waiver thereof.

13.4. Entire Agreement. This Agreement, together with the Ancillary Agreements and any documents, instruments and certificates explicitly referred to herein or therein, constitute the entire agreement among the Parties hereto with respect to the subject matter hereof and supersedes any and all prior discussions, negotiations, proposals, undertakings, understandings and agreements, whether written or oral, with respect thereto (save for the Confidentiality Agreement).

13.5. Counterparts. This Agreement may be executed in any number of counterparts with signatures delivered by facsimile or .pdf electronic file, each of which will be deemed an original as if delivered in person, but all of which together will constitute but one and the same instrument.

13.6. Severability. Any term or provision of this Agreement that is invalid or unenforceable in any situation in any jurisdiction will not affect the validity or enforceability of the remaining terms and provisions hereof or the validity or enforceability of the offending term or provision in any other situation or in any other jurisdiction. In the event that any provision hereof would, under applicable Legal Requirements, be invalid or unenforceable in any respect, each Party hereto intends that such provision will be construed by modifying or limiting it so as to be valid and

enforceable to the maximum extent compatible with, and possible under, applicable Legal Requirements.

13.7. Construction. The Parties have participated jointly in the negotiation and drafting of this Agreement. In the event an ambiguity or question of intent or interpretation arises, this Agreement will be construed as if drafted jointly by the Parties and no presumption or burden of proof will arise favoring or disfavoring either Party by virtue of the authorship of any of the provisions of this Agreement. The Parties intend that each representation, warranty and covenant contained herein will have independent significance. If any Party has breached or violated, or if there is an inaccuracy in, any representation, warranty or covenant contained herein in any respect, the fact that there exists another representation, warranty or covenant relating to the same subject matter (regardless of the relative levels of specificity) which the Party has not breached or violated, or in respect of which there is not an inaccuracy, will not detract from or mitigate the fact that the Party has breached or violated, or there is an inaccuracy in, the first representation, warranty or covenant.

13.8. Governing Law. This Agreement, the rights of the Parties and all Actions arising in whole or in part under or in connection herewith, will be governed by and construed in accordance with the domestic substantive laws of The State of Delaware, without giving effect to any choice or conflict of law provision or rule that would cause the application of the laws of any other jurisdiction.

13.9. Jurisdiction; Venue; Service of Process.

(a) Jurisdiction. Subject to the provisions of Section 13.10, each Party to this Agreement, by its execution hereof, (a) hereby irrevocably submits to the jurisdiction of the state courts of The State of Delaware and the U.S. District Court sitting in Wilmington for the purpose of any Action between the Parties arising in whole or in part under or in connection with this Agreement, (b) hereby waives to the extent not prohibited by applicable Legal Requirements, and agrees not to assert, by way of motion, as a defense or otherwise, in any such Action, any claim that it is not subject personally to the jurisdiction of the above-named courts, that its property is exempt or immune from attachment or execution, that any such Action brought in one of the above-named courts should be dismissed on grounds of forum non conveniens, should be transferred or removed to any court other than one of the above-named courts, or should be stayed by reason of the pendency of some other proceeding in any other court other than one of the above-named courts, or that this Agreement or the subject matter hereof may not be enforced in or by such court and (c) hereby agrees not to commence any such Action other than before one of the above-named courts. Notwithstanding the previous sentence, a Party may commence any Action in a court other than the above-named courts solely for the purpose of enforcing an order or judgment issued by one of the above-named courts.

(b) Venue. Each Party agrees that for any Action between the Parties arising in whole or in part under or in connection with this Agreement, such Party bring

Actions only in the city of Wilmington, Delaware. Each Party further waives any claim and will not assert that venue should properly lie in any other location within the selected jurisdiction.

(c) Service of Process. Each Party hereby (i) consents to service of process in any Action between the Parties arising in whole or in part under or in connection with this Agreement in any manner permitted by Delaware law, (ii) agrees that service of process made in accordance with clause (i) or made by registered or certified mail, return receipt requested, at its address specified pursuant to Section 13.1, will constitute good and valid service of process in any such Action and (iii) waives and agrees not to assert (by way of motion, as a defense, or otherwise) in any such Action any claim that service of process made in accordance with clause (i) or (ii) does not constitute good and valid service of process.

13.10. Specific Performance. Each Party acknowledges and agrees that the other would be damaged irreparably in the event any of the provisions of this Agreement are not performed in accordance with their specific terms or otherwise are breached or violated. Accordingly, each of the Parties agrees that, without posting bond or other undertaking, the other Party will be entitled to an injunction or injunctions to prevent breaches or violations of the provisions of this Agreement and to enforce specifically this Agreement and the terms and provisions hereof in any Action instituted in any court of the United States or any state thereof having jurisdiction over the Parties and the matter in addition to any other remedy to which it may be entitled, at law or in equity. Each Party further agrees that, in the event of any action for specific performance in respect of such breach or violation, it will not assert that the defense that a remedy at law would be adequate.

13.11. Waiver of Jury Trial. **TO THE EXTENT NOT PROHIBITED BY APPLICABLE LAW THAT CANNOT BE WAIVED, THE PARTIES HEREBY WAIVE, AND COVENANT THAT THEY WILL NOT ASSERT (WHETHER AS PLAINTIFF, DEFENDANT OR OTHERWISE), ANY RIGHT TO TRIAL BY JURY IN ANY ACTION ARISING IN WHOLE OR IN PART UNDER OR IN CONNECTION WITH THIS AGREEMENT OR ANY OF THE CONTEMPLATED TRANSACTIONS, WHETHER NOW EXISTING OR HEREAFTER ARISING, AND WHETHER SOUNDING IN CONTRACT, TORT OR OTHERWISE. THE PARTIES AGREE THAT ANY OF THEM MAY FILE A COPY OF THIS PARAGRAPH WITH ANY COURT AS WRITTEN EVIDENCE OF THE KNOWING, VOLUNTARY AND BARGAINED-FOR AGREEMENT AMONG THE PARTIES IRREVOCABLY TO WAIVE ITS RIGHT TO TRIAL BY JURY IN ANY PROCEEDING WHATSOEVER BETWEEN THEM RELATING TO THIS AGREEMENT OR ANY OF THE CONTEMPLATED TRANSACTIONS AND THE FOREGOING WILL INSTEAD BE TRIED IN A COURT OF COMPETENT JURISDICTION BY A JUDGE SITTING WITHOUT A JURY.**

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, each of the undersigned has executed this Agreement as an agreement under seal as of the date first above written.

Stem Cell Sciences plc

By: /s/ Alastair Riddell
Name: Alastair Riddell
Title: Chief Executive Officer

StemCells, Inc.

By: /s/ Martin M. McGlynn
Name: Martin M. McGlynn
Title: President & Chief Executive Officer

StemCells

CODE OF ETHICS AND CONDUCT

Approved: 3/11/04
Amended: 9/12/07

TABLE OF CONTENTS

Code of Ethics and Conduct

StemCells

Corporate Code of Ethics and Conduct

1. General Policy

It has always been the policy of StemCells, Inc. and StemCells California, Inc. (collectively, "StemCells" or the "Company") to conduct business in compliance with all applicable laws, rules and regulations and with integrity. This is our obligation to our shareholders, to our community, to those government agencies that regulate StemCells, to the patients who will eventually be treated by our products and to their physicians, and to ourselves. Because of SEC rules under the Sarbanes Oxley Act and NASDAQ requirements, we have restated our policy in this formal way, but our underlying commitment to honorable and lawful conduct has not changed.

Each StemCells employee, officer and director must comply with the policies set forth in this Code of Ethics and Conduct (the "Code"). All employees, officer and directors should review this Code or summary materials that may be issued in conjunction with the Code, and make sure that these policies guide their actions. If any employee, officer or director becomes aware of an issue of legal compliance which is not adequately addressed in this Code, the Compliance Officer should be notified. The text of StemCells' Corporate Code of Ethics and Conduct can also be found through the Company's website (www.stemcellsinc.com) or directly at http://www.stemcellsinc.com/shared/pdf/code_of_conduct_ethics.pdf.

StemCells takes compliance with laws, regulations, rules and the Code seriously. Any intentional violation will result in disciplinary action up to and including dismissal from employment. Disciplinary actions may also apply to an employee's supervisor who directs or approves the employee's improper actions or who is aware of those actions, but does not act appropriately to correct them or fails to exercise appropriate supervision. In addition to imposing its own discipline, StemCells may also bring violations of law or suspected violations of law to the attention of appropriate law enforcement personnel.

This Code includes statements of StemCells' policy in a number of specific areas. We need your help to comply with these policies. To that end, the Company's General Counsel has been named as the Code of Ethics and Conduct Compliance Officer, charged with reviewing the Company's compliance policies and specific compliance situations that may arise.

If a question arises as to whether any action complies with StemCells policies or applicable law, an employee, officer or director should present that question directly to the Compliance Officer (650.475.3100, extension 122 or ken.stratton@stemcellsinc.com). Concerns about violations of any part of this Code may be made anonymously, by sending them to the Compliance Officer at the Company's headquarters, at 3155 Porter Drive, Palo Alto, California 94304. Simply ask your question or give any information you may have. If you are reporting a possible violation, it is important to give the information you have in as much detail as possible, and as accurately as you can, neither overstating it nor omitting any relevant facts. In raising an issue, you may remain anonymous, although you are encouraged to identify yourself. Should

you choose to identify yourself, your identity will be kept confidential to the extent feasible or permissible under the law. All employees, officers and directors of StemCells have the commitment of the Company and of the Audit Committee of its Board of Directors that they will be protected from retaliation for any report of possible misconduct made in good faith. Knowingly making a false accusation or providing false information to the Company, however, is improper, a violation of this Code, and an action that subjects the actor to discipline. Failure to report known or suspected wrongdoing of which any member of StemCells has knowledge may, by itself, subject that person to disciplinary action.

This Code generally highlights some of the more important legal principles with which employees, officers and directors are expected to be familiar. The fact that this Code does not specifically reference other applicable laws (some of which may be covered in other StemCells policies), does not diminish their importance or application. There are, of course, other StemCells policies separate from this one; these are made available to, and must be adhered to by, employees of the Company.

2. Compliance with the Law

StemCells seeks to comply with all applicable government laws, rules and regulations. We need the cooperation of all employees, officers and directors to do so and to bring lapses or violations to light. While some regulatory schemes may not carry criminal penalties, they control the licenses and certifications that allow the Company to conduct its business. StemCells' continued ability to operate depends upon your help.

Some of the regulatory programs that affect the Company and with which employees may deal in the course of their duties include, but are not limited to, the following:

- labor and wage & hour laws;
- occupational safety and health regulation;
- antitrust laws;
- building, safety and fire codes;
- regulations concerning use of animals in research;
- laws and regulations of hazardous materials and radiation;
- laws and regulations covering biotechnology products and pharmaceuticals;
- healthcare laws and regulations;
- export control system; and
- environmental programs.

The Compliance Officer can provide employees with information on these rules, and can direct questions or concerns to the proper person.

3. Company Stock

Because our stock is publicly traded, certain of the Company's activities are subject to certain provisions of the federal securities laws. These laws govern the dissemination or use of information about the affairs of StemCells or its subsidiaries or affiliates, and other information which might be of interest to persons considering the purchase or sale of the stocks. Violations

of the federal securities laws could subject you and the Company to stiff criminal and civil penalties. Accordingly, StemCells does not sanction and will not tolerate any conduct that risks a violation of these laws.

a. Disclosure of Transactions in StemCells Securities

The Securities and Exchange Commission ("SEC") requires continuing disclosure of transactions in the Company's publicly traded securities by the Company, its directors, executive officers, major shareholders and certain other affiliated persons. We are committed to complying with obligations related to this disclosure. Covered transactions are reported to the SEC and the reports are public; they may be viewed through the StemCells website, www.stemcellsinc.com, by clicking on the "Investor" tab and then selecting "SEC Filings."

b. Insider Trading

It is illegal for any person, either personally or on behalf of others, (i) to buy or sell securities while in possession of material nonpublic information, or (ii) to communicate (to "tip") material nonpublic information to another person who trades in the securities on the basis of the information or who in turn passes the information on to someone who trades. All directors, officers, employees, and temporary insiders, such as accountants and lawyers, must comply with these "insider trading" restrictions.

All information that an investor might consider important in deciding whether to buy, sell, or hold securities is considered "material." Information that is likely to or may affect the price of securities is almost always material. Examples of some types of material information are:

- information regarding the results of our research and development, including clinical trial results, results from pre-clinical experiments and the status of regulatory approval or the regulatory process for any of our product candidates;
- financial and operating results for the month, quarter or year;
- financial forecasts, including proposed or approved budgets;
- possible mergers, acquisitions, joint ventures and other purchases and sales of products, businesses, companies and investments in companies;
- obtaining or losing important contracts, such as critical licensing agreements;
- major personnel changes; and
- major litigation developments.

All information about StemCells or its business plans is potentially "insider" information until publicly disclosed or made available by StemCells. Thus, StemCells employees, officers or directors may not disclose it to others. This prohibition includes disclosure to relatives, friends, or business or social acquaintances. Information is considered to be nonpublic unless it has been effectively disclosed to the public (for example, by a press release). Further, the information must not only be publicly disclosed, but there must also be adequate time for the market as a whole to digest the information.

When an employee, officer or director knows material nonpublic information about StemCells, he or she is prohibited from these activities:

- trading in the stocks for his or her own account or for the account of another (including any trust of which the employee, officer or director is a trustee, or any other entity that buys or sells securities, such as a mutual fund);
- having anyone else trade for the employee, officer or director; and
- disclosing the information to anyone else who then trades or in turn “tips” another person who trades.

Neither the employee nor anyone acting on the employee’s behalf, nor anyone who learns the information from the employee, may trade for as long as the information continues to be material and nonpublic.

If an employee, officer or director is considering buying or selling the stocks and has a question as to whether the transaction might involve the improper use of material nonpublic information, that individual should obtain specific prior approval from the General Counsel. Consultation with the individual’s own attorney is also strongly encouraged.

On a related point, you should remember that outsiders may be listening or watching and may be able to pick up information they should not have. No discussion of StemCells’ material nonpublic information should take place in public areas — such as corridors, elevators and restaurants — and care should be taken in the handling and disposal of papers containing material nonpublic information. Any questions or concerns about disclosure of nonpublic information should be brought to the Chief Financial Officer.

4. Confidential Information

You may be entrusted with StemCells’ confidential business information. You are required to safeguard and use such information only for Company purposes. Confidential information includes all non-public information that might be of use to competitors or harmful to StemCells, if disclosed. You are expected to maintain the confidentiality of any and all such information entrusted to you by the Company or others with whom we have confidential relationships. Examples of confidential business information include, but are not limited to: the Company’s trade secrets, business plans, clinical trial results, results from pre-clinical experiments and the status of regulatory approval or the regulatory process for any of our product candidates, detailed income, cost and profit figures, new product plans, research and development ideas or information, manufacturing processes, and information about potential acquisitions, divestitures and investments. The Company often enters confidentiality agreements with third parties, such as individuals, universities and companies with which we are doing or considering doing business, and information acquired from those parties is likely to be confidential; in these cases, any employee, consultant or other agent of the Company with access to that information is required to maintain the confidentiality of the other party’s information. If you are not sure, you should check with your supervisor or with company counsel. Failure to observe these obligations of confidentiality may compromise our competitive advantage over competitors and may additionally result in a breach of contract or a violation of securities,

antitrust or employment laws. You should not discuss confidential Company information outside the Company, even with your own family.

Consultants retained by StemCells sign appropriate confidentiality agreements with the Company.

5. Special Ethical Obligations For Employees With Financial Reporting Responsibilities

As a public company, we are also committed to carrying out all continuing disclosure obligations in a full, fair, accurate, timely, and understandable manner. Depending on their position with StemCells, employees, officers or directors may be called upon to provide information to assure that the Company's public reports are complete, fair and understandable. StemCells expects all of its personnel to take this responsibility very seriously and to provide prompt and accurate answers to inquiries related to the Company's public disclosure requirements.

The Finance Department bears a special responsibility for promoting integrity throughout the organization. The Chief Executive Officer and Finance Department personnel have a special role both to adhere to these principles themselves and also to ensure that a culture exists throughout the company as a whole that ensures the fair and timely reporting of StemCells' financial results and condition.

Because of this special role, the Chief Executive Officer and the members of StemCells' Finance Department are obligated to:

- act with honesty and integrity, avoiding actual or apparent conflicts of interest in personal and professional relationships;
- provide information that is accurate, complete, objective, relevant, timely and understandable to ensure full, fair, accurate, timely, and understandable disclosure in reports and documents that StemCells files with, or submits to, government agencies and in other public communications;
- comply with rules and regulations of federal, state, provincial and local governments, and other appropriate private and public regulatory agencies;
- respect the confidentiality of information acquired in the course of work except when authorized or otherwise legally obligated to disclose (Confidential information acquired in the course of work is not to be used for personal advantage.);
- promote and be an example of ethical behavior as a responsible partner among peers, in the work environment and the community; and
- promote the responsible use of and control over Company assets.

Employees, officers and directors should promptly report to the Compliance Officer and/or the Chairman of the Audit Committee any conduct that the individual believes to be a violation of law or business ethics or of any provision of the Code, including any transaction or relationship that reasonably could be expected to give rise to such a conflict. Violations,

including failures to report potential violations by others, will be viewed as a severe disciplinary matter that may result in personnel action, including termination of employment.

6. Continuing Disclosure Obligations and Accuracy of Business Records

In order to support all our disclosure obligations, it is StemCells' policy to record and report our factual information honestly and accurately. Failure to do so is a grave offense and will subject an individual to severe discipline by the Company, as well as possible criminal and civil penalties.

Investors count on StemCells to provide accurate information about our business and to make responsible business decisions based on reliable records. Every individual involved in creating, transmitting or entering information into StemCells' financial and operational records is responsible for doing so fully, fairly, accurately, and timely, and with appropriate supporting documentation. No employee, officer or director may make any entry that intentionally hides or disguises the true nature of any transaction. For example, no individual may understate or overstate known liabilities and assets, record false revenues or revenues early, defer or accelerate the proper period for recording items that should be expensed, falsify quality or safety results, or process and submit false or inaccurate invoices.

Compliance with established accounting procedures, StemCells' system of internal controls, and generally accepted accounting principles is necessary at all times. In order to achieve such compliance, the Company's records, books and documents must accurately reflect the transactions and provide a full account of the Company's assets, liabilities, revenues, and expenses. Knowingly entering inaccurate or fraudulent information into StemCells' accounting system is unacceptable and may be illegal. Any individual who has knowledge that an entry or process is false and material is expected to consult the Compliance Officer. In addition, it is the responsibility of each employee, officer and director to cooperate with the Company's authorized auditors.

When billing others for the Company's services, StemCells has an obligation to exercise diligence, care, and integrity. StemCells is committed to maintaining the accuracy of every invoice it processes and submits. Each employee who is involved in submitting charges, preparing claims, billing, and documenting services is expected to monitor compliance with applicable rules and maintain the highest standards of personal, professional, and institutional responsibility. By the same token, each employee who is involved with processing and documenting vendors' or contractors' claims for payment is similarly expected to maintain the highest standards of professionalism and ethics. Any false, inaccurate, or questionable practices relating to billing others or to processing claims made by others for payment should be reported immediately to a supervisor, the Controller or the Compliance Officer.

Every individual should also be aware that almost all business records of the Company may become subject to public disclosure in the course of litigation or governmental investigation. Records are also often obtained by outside parties or the media. Employees should therefore attempt to be as clear, concise, truthful, and as accurate as possible when recording any information. They must refrain from making legal conclusions or commenting on legal positions taken by the Company or others. They must also avoid exaggeration, colorful

language, and derogatory characterizations of people and their motives. StemCells will not tolerate any conduct that creates an inaccurate impression of the Company's business operations.

7. Protection and Proper Use of Company Assets

Employees, officers and directors should protect the Company's assets and ensure their efficient use. Theft, carelessness and waste have a direct impact on the Company's ability to conduct its research and development and, ultimately, on its profitability. All Company assets should be used for legitimate business purposes.

a. Computers, the Internet and E-mail

Everyone who works with the Company's computer-based resources is responsible for complying with StemCells' policy on Use of Technology and the Internet, which appears in the Employee Handbook. Employees should take care to understand the risks and ensure that the security features of the computer-based resources are not compromised. Information created, transmitted or accessed on Company networks is Company property, and StemCells reserves the right to monitor or restrict access to it. Individual supervisors are responsible for ensuring that Company resources are used productively or to enhance employees' skills and job performance.

Computer software used in connection with StemCells' business must be properly licensed and used only in accordance with that license. Using unlicensed software could constitute copyright infringement. If an employee has any questions as to whether his or her use of computer software is licensed, he or she should consult with the IT Manager or the Compliance Officer.

The same level of care should be taken when using StemCells' e-mail, internet and voice mail systems as is used in written documents. For example, confidential information about StemCells should not be disclosed on electronic bulletin boards, in chat rooms or posted on an internet website.

8. Corporate Opportunities

Employees, officers and directors are prohibited from (a) taking for themselves personally opportunities that they discover through the use of Company property, information or position, (b) using Company property, information or position for personal gain, and (c) competing with the Company. Each employee, officer and director owes a duty to the Company to advance its legitimate interests when the opportunity to do so arises.

9. Fair Dealing

Employees, officers and directors should endeavor to deal fairly with the Company's suppliers, competitors and employees, and should not take unfair advantage of anyone through manipulation, concealment, abuse of privileged information, misrepresentation of material facts, or any other unfair-dealing practices.

10. Conflicts of Interest

StemCells employees, officers and directors should avoid all potential conflicts of interest or situations that give the appearance of such conflict of interest. A conflict of interest occurs when the private interest of a StemCells employee (or an immediate family or household member or someone with whom you have an intimate relationship) interferes, in any way — or even appears to interfere — with the duties performed by the employee or with the interests of the Company as a whole. A conflict situation can arise when an employee, officer or director takes actions or has interests that may make it difficult to perform his or her work objectively and effectively. Conflicts of interest also arise when an employee, officer or director, or a member of his or her family, receives improper personal benefits as a result of his or her position in the Company. Loans to, or guarantees of obligations of, such persons are of special concern.

In order to avoid conflicts of interest, StemCells employees, officers or directors may not be employed by, act as a consultant to, or have an independent business relationship with any of StemCells' competitors or suppliers. Nor may employees, officers or directors invest in any customer, supplier, or competitor (other than through mutual funds or through holdings of less than one-half percent of the outstanding shares of publicly traded securities) unless they first obtain written permission from the Chief Executive Officer. Employees, officers or directors should not have other outside employment or business interests that place them in the position of (i) appearing to represent StemCells, (ii) providing goods or services substantially similar to those StemCells provides or is considering making available, or (iii) lessening their efficiency, productivity, or dedication to StemCells in performing their everyday duties. Employees, officers and directors may not have an interest in or speculate in anything of value which may be affected by StemCells' business. Employees, officers or directors may not divulge or use StemCells' confidential information — such as financial data, computer programs, technical methods, or scientific discoveries — for their own personal or business purposes.

Any personal or business activities by an employee, officer or director that may raise concerns about conflict, potential conflict or apparent conflict of interest must be disclosed to, and approved in advance by, the Compliance Officer. You should also obtain the approval of a supervising officer when accepting a board position with a not-for-profit entity, when there may be a StemCells business relationship with the entity or an expectation of financial or other support from StemCells.

11. Gifts, Meals and Entertainment

a. Entertainment and Gifts

StemCells recognizes that in some instances, gifts, favors and entertainment can provide an entirely appropriate means of furthering a business relationship. These are permitted only when all of the following conditions are met:

- Public disclosure would not embarrass StemCells;
- They are of limited value ($50.00 or less); and
- They are consistent with our business practices.

No employee, officer or director should accept or provide gifts of more than $50 in connection with their business dealings. The offer or receipt of any such gift over $50 should be reported immediately to the Compliance Officer. Normal business courtesies involving no more than ordinary amenities (such as lunch, dinner, a spectator event, or a golf game) are permitted, as are token non-cash gifts of nominal value. The guiding principle is that no gift, favor or entertainment should be accepted or provided if it will obligate, or appear to obligate, the recipient. If you are uncertain about the propriety of a gift, you should contact the Compliance Officer for guidance. StemCells employees may not offer, give, solicit, or receive any payment that could appear to be a bribe, kickback, payoff, or other irregular type of payment.

b. Relationships with Government Personnel

Separate and more stringent gift, meals and entertainment rules apply to dealings with government officials. Federal and state anti-kickback laws prohibit StemCells and its representatives from knowingly and willfully offering, paying, requesting, or receiving any money or other benefit, directly or indirectly, in return for obtaining or rewarding favorable treatment in connection with the award of a government contract. Any employee who becomes aware of any such conduct should immediately report it to the Compliance Officer.

The anti-kickback laws must be considered whenever something of value is given or received by StemCells or its representatives or affiliates that is in any way connected to work performed for the government. There are many transactions that may violate the anti-kickback rules. As a result, no one acting on behalf of StemCells may offer or accept gifts, loans, rebates, services, or payment of any kind to or from government suppliers and vendors without first consulting the Compliance Officer.

c. Business Dealings in Foreign Countries

Federal law prohibits U.S. companies, and those acting on their behalf, from bribing foreign officials to obtain or retain business. Foreign officials include officers and employees of a foreign government or of a foreign governmental department or agency. Indirect payments including those to agents or third parties with the knowledge that at least a portion of the payment will be given to a foreign official for an illegal purpose are prohibited. StemCells will not tolerate any conduct that violates this law.

12. Interacting with the Government

a. Relations with Government

StemCells values its good relations with local, state, federal, and foreign governments. We are committed to being a “good corporate citizen” and are proud of the contributions we have made to help the communities where we do business.

It is StemCells’ policy is to maintain good relations with local, state and federal governments and government agencies, to deal honestly and fairly with government representatives and agents, and to comply with valid and reasonable governmental requests and processes. It is a violation of the Company’s policy to provide false or misleading information to any government agent or representative, or to encourage anyone else to do so. It is a violation of

the Company's policy to destroy records relevant to a fact-finding process, or to direct or encourage anyone else to do so. As noted elsewhere, violations of this policy will give rise to disciplinary action up to and including termination of employment. See Section 19, below, for instructions on how to deal with government investigations or inquiries.

13. Market Competition

StemCells is committed to complying with all state and federal antitrust laws. These laws cover matters like prohibitions on price-fixing, dividing markets or territories, and other unlawful agreements. Any questions that arise in this area should be addressed to the Compliance Officer.

14. Purchasing

Purchasing decisions must be made in accordance with applicable StemCells policy. In addition, the prohibitions discussed in Section 11 of this Code, entitled "Gifts, Meals and Entertainment" apply to purchasing decisions. Purchasing decisions must in all instances be made free from any conflicts of interest that could affect the outcome. StemCells is committed to a fair and objective procurement system which results in the acquisition of quality goods and services at a fair price.

15. Political Contributions

StemCells employees are free to participate in civic and political activities to the extent they wish to do so. The Company's direct political activities are, however, limited by law. Corporations may not make any contributions — whether direct or indirect — to candidates for federal office. Thus, StemCells may not contribute any money or products, or lend the use of vehicles, equipment or facilities, to candidates for federal office. Nor may StemCells make contributions to political action committees that make contributions to candidates for federal office. Neither StemCells, nor supervisory personnel within StemCells, may require any employees to make any such contribution. Finally, StemCells cannot reimburse its employees for any money they contribute to political candidates or campaigns.

California law also limits the extent to which corporations and individuals may contribute to political candidates. Any question about the propriety of political activity or contribution should be directed to the Compliance Officer.

16. Exports and Imports

StemCells employees and agents should be aware that there are also many U.S. laws that govern the import of items into the United States. Among other things, these laws control what can be imported into the United States, how the articles should be marked and the amount of duty to be paid. StemCells complies with all U.S. import laws. If an employee or agent is uncertain about whether a transaction involving the importation of items into the United States complies with these laws, he or she must contact the Compliance Officer for guidance.

There are also many U.S. laws and regulations governing international trade and commerce which serve to limit the export of certain products to certain countries. StemCells is

committed to complying with those laws. Because these rules are complicated and change periodically, at such time as the Company has products, its employees and agents seeking to export a product will first confirm the legal trade status of that country and, if uncertain about whether a foreign sale complies with U.S. export laws, contact the Compliance Officer for guidance.

17. Media/Public Relations and Governmental Inquiries

When StemCells provides information to the news media, securities analysts and stockholders, it has an obligation to do so accurately and completely. In order to ensure that StemCells complies with its obligations, employees receiving inquiries regarding StemCells' activities, results, plans or position on public issues should refer the request to the Company's President and Chief Executive Officer, unless he has designated another person to act as corporate spokesperson. StemCells employees may not speak publicly for the company unless specifically authorized by senior management.

In the unlikely event that a government representative seeks to interview an employee regarding StemCells' business activities or an employee's work at the Company, the employee should contact the General Counsel.

Occasionally, someone will arrive unexpectedly or a government representative may seek to inspect the Company's facility. If this happens, an employee should immediately notify his or her Manager or Supervisor and contact the General Counsel.

18. Environmental Compliance

In conducting its business, StemCells is committed to compliance with all applicable laws and regulations relating to the protection of the environment, and in particular those governing the incineration, treatment, storage, disposal, and discharge of waste. Failure to comply, even if unintentional, could result in significant penalties for StemCells. Accordingly, if an employee suspects noncompliance or violation of these laws and regulations, the circumstances should be reported immediately to the Health Safety Officer or the Compliance Officer.

19. Response to Investigations or Government Inquiries

Numerous state and federal agencies have broad legal authority to investigate StemCells and review its records. StemCells will comply with subpoenas and respond to governmental investigations as required by law. The Compliance Officer is responsible for coordinating StemCells' response to investigations and the release of any information.

If an employee or officer receives an investigative demand, subpoena or search warrant involving StemCells, it should be brought immediately to the General Counsel. No documents should be released or copied without authorization from the General Counsel. If an investigator, agent or government auditor comes to a StemCells' facility, contact the President and CEO or his designee immediately. In the absence of the Chief Executive Officer, contact StemCells' General Counsel. Ask the investigator to wait until the contacted individual arrives before reviewing any documents or conducting any interviews. The Compliance Officer or the General

Counsel is responsible for assisting with any interviews. If StemCells employees are approached by government investigators and agents while they are away from StemCells' premises and asked to discuss Company affairs, the employee has the right to insist on being interviewed during business hours with a supervisor or counsel present. Alternatively, any employee may choose to be interviewed or not to be interviewed at all. The Company recognizes the choice of how to proceed in these circumstances is left entirely the employees. If an employee chooses to speak with government personnel, it is essential that the employee be truthful. Questions may be directed to the Compliance Officer.

StemCells employees are not permitted to alter, remove or destroy documents or records of StemCells except in accordance with regular document retention and destruction practices. If a government investigation should be conducted, it is essential that no documents or records be destroyed or damaged during its course.

20. Amendments And Waivers

This Code applies to all StemCells employees, officers and directors. There shall be no substantive amendment or waiver of any part of the Code affecting the directors, senior financial officers or executive officers, except by a vote of the Board of Directors, which will ascertain whether an amendment or waiver is appropriate and ensure that the amendment or waiver is accompanied by appropriate controls designed to protect StemCells.

In the event that any substantive amendment is made or any waiver of the type requiring disclosure is granted, the waiver will be posted on the StemCells' website and/or filed with the SEC as appropriate, thereby allowing the StemCells shareholders to evaluate the merits of the particular waiver.

EMPLOYEE CERTIFICATION AND AGREEMENT OF COMPLIANCE

I certify that I have read StemCells' "Corporate Code of Ethics and Conduct" (the "Code") and fully understand the obligations set forth in those documents.

The Code includes a statement of StemCells' policies, which are designed to ensure that the Company and its employees conduct StemCells' business in compliance with all federal and state laws governing its operations and the conduct is consistent with the highest standards of business and professional ethics.

I understand that the Code obligates all employees to carry out their duties for StemCells in accordance with these policies and with applicable laws. I further understand that any violation of these policies or applicable laws, or any deviation from appropriate ethical standards, will subject an employee to disciplinary action. Indeed, I understand that even a failure to report such a violation or deviation may, by itself, subject an employee to disciplinary action.

I am also aware that in the event that I have any question about whether an action complies with StemCells' policies or applicable law, I should present that question to my supervisor, the Compliance Coordinator at my facility, or, if appropriate, directly to the Company's Compliance Officer or other members of the Compliance Committee.

With these understandings of my obligations, I agree to act in accordance with the StemCells policies set forth in the Code. Having read the Code, I am not currently aware of any matter that should be brought to the attention of Compliance personnel as a violation or suspected violation of this Code.

Signed: _____

Print Name: _____

Date: _____

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have issued our reports dated March 11, 2009, with respect to the consolidated financial statements and internal control over financial reporting included in the Annual Report of StemCells, Inc. on Form 10-K for the year ended December 31, 2008. We hereby consent to the incorporation by reference of said reports in the previously filed Registration Statements of StemCells, Inc. on Forms S-3 (File Nos. 333-151891, effective June 24, 2008 and amended on July 18, 2008, 333-117360, effective July 14, 2004, 333-105664, effective May 29, 2003, 333-75806, effective December 21, 2001 and 333-66692, effective August 3, 2001) and Forms S-8 (File Nos. 333-10773, effective August 23, 1996, 333-29335, effective June 16, 1997, 333-37313, effective October 7, 1997, 333-66700, effective August 3, 2001, 333-118263, effective August 16, 2004, 333-144747, effective July 20, 2007, and 33-49524, effective July 10, 1992) and Registration Statements of CytoTherapeutics, Inc. on Forms S-3 (File Nos. 33-91228, effective April 14, 1995, and 33-68900, effective September 15, 1993).

/s/ GRANT THORNTON LLP

San Francisco, California
March 11, 2009

EXHIBIT 31.1

Certification of Chief Executive Officer
under Section 302 of the Sarbanes-Oxley Act

I, Martin McGlynn, certify that:

(1) I have reviewed this annual report on Form 10-K of StemCells, Inc.;

(2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

(3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

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

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

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

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

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

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

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

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

Date: March 13, 2009

/s/ Martin McGlynn
Martin McGlynn
President and Chief Executive Officer

EXHIBIT 31.2

Certification of Chief Financial Officer
under Section 302 of the Sarbanes-Oxley Act

I, Rodney K.B. Young, certify that:

(1) I have reviewed this annual report on Form 10-K of StemCells, Inc.;

(2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

(3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

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

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

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

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

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

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

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

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

Date: March 13, 2009

/s/ Rodney K.B. Young
Rodney K.B. Young
Chief Financial Officer

Exhibit 32.1

Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the StemCells, Inc. (the "Company") Annual Report on Form 10-K for the year ended December 31, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Martin McGlynn, President and Chief Executive Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

(1). The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

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

Date: March 13, 2009

/s/ Martin McGlynn
Martin McGlynn
President and Chief Executive Officer

Exhibit 32.2

Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the StemCells, Inc. (the "Company") Annual Report on Form 10-K for the year ended December 31, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Rodney K.B. Young, Chief Financial Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

(1). The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

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

Date: March 13, 2009

/s/ Rodney K.B. Young
Rodney K.B. Young
Chief Financial Officer