



INSTITUTIONAL RESEARCH

Healthcare & Biotechnology

COMPANY UPDATE

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Toll Free: 866-928-0928 s www.DawsonJames.com s 925 Federal Highway, 6th Floor s Boca Raton, FL 33432

StemCells, Inc. (Nasdaq/STEM)

Neutral Terminating Coverage

StemCells is developing human neural stem cells for therapeutic applications

January 17, 2011

Robert M. Wasserman

Director of Research

561-208-2905

rwasserman@dawsonjames.com

Investment Highlights

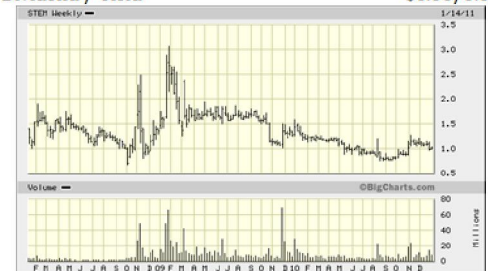
1) We are terminating coverage on shares of StemCells, Inc. at this time in order to focus research resources in other areas. Our most recent rating on these shares was Neutral. Shares of STEM have traded very near the \$0.99 share price in evidence in our update on May 21, 2010, when these shares were downgraded to Neutral. We will continue to monitor these shares and the stem cell therapeutic industry in general for the time being.

Current Price \$1.02

Price Target N/A

Estimates	F2008A	F2009	F2010E
Revenues(\$000s)	\$232	\$993	\$600
EPS	(\$0.35)	(\$0.26)	(\$0.17)

Stock Data	
52-Week Range	\$0.76-\$1.45
Shares Outstanding (mil.)	127.1
Market Capitalization (mil.)	\$129.6
Enterprise Value (mil.)	\$105.7
Debt to Capital (9/10)	3.3%
Book Value/Share (9/10)	\$0.22
Price/Book	4.6 x
Average Trading Volume (3-Month)	1.8 million
Insider Ownership	2.3%
Institutional Ownership	15.8%
Short interest	10.2 million
Dividend / Yield	\$0.00/0.0%



Price target and ratings changes over the past 3 yrs:

Initiated - January 14, 2009 - Price Target \$3.00

Downgraded - May 24, 2010

Coverage Terminated - January 17, 2011

Please find Important Disclosures beginning on Page 3.

Risk Factors

We believe an investment in StemCells Inc. involves the following risks:

- StemCells' clinical programs and ultimately final products are reliant **on approvals by the US FDA** and other regulatory bodies. There can be no guarantee of timely or definitive regulatory approvals for any of their pipeline products. In addition, the development of human stem-cell therapies is breaking new ground both technologically and ethically in the United States, and controversy surrounding this technology continues to exist.
- StemCells owns or exclusively licenses a number of **patents related to human neural stem cells** and methods of deriving and using these cells. At various times in the future, the Company may have to defend these patents, and indeed currently the Company is involved in patent litigation with Neuralstem Inc. relating to the use of human neural stem cells. The Company has recently resumed pursuing its patent infringement cases against Neuralstem (ASE/CUR/Not Rated) following several decisions by the US PTO to uphold the Company's patents, with discovery and a trial date anticipated to begin sometime in 2011 or 2012.
- Finally, although we estimate that the Company has as much as 15-18 months worth of cash remaining to fund ongoing operations, should StemCells **incur any unusually large expenses or accelerate its R&D programs**, the Company may have to go back to the equity markets sooner than in mid-2011.

Catalysts/Investor Timeline

- 1) Complete enrollment in second Phase I study for NCL (Batten disease) – 2011-12
- 2) Complete enrollment in Phase I study for PMD – 2011-12
- 3) Begin Phase I trial for age-related macular degeneration – early 2012
- 4) Additional license agreements for stem cell services for SCS – 2011-12

Important Disclosures:

Price Chart:



Price target and ratings changes over the past 3 years:

Initiated - January 14, 2009 – Target \$3.00
 Downgraded to Neutral – May 24, 2010
 Coverage terminated – January 17, 2011

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Ratings Distribution	Company Coverage		Investment Banking	
	# of Companies	% of Total	# of Companies	% of Totals
Buy	16	73%	5	31%
Neutral	6	37%	4	67%
Sell	0	0%	0	0%
Total	22	100%	9	41%

Information about risks can be found in the "RISK FACTORS" section of this report. We do not have a Price Target or Valuation on these shares at this time.

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