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

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of Earliest Event Reported):

November 1, 2006

StemCells, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction
of incorporation)

000-19871

(Commission
File Number)

94-3078125

(I.R.S. Employer
Identification No.)

3155 Porter Drive, Palo Alto, California

(Address of principal executive offices)

94304

(Zip Code)

Registrant's telephone number, including area code:

650.475.3100

Not Applicable

Former name or former address, if changed since last report

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 2.02 Results of Operations and Financial Condition.

On November 1, 2006, StemCells, Inc. issued a press release announcing its financial results for the third quarter ended September 30, 2006. The full text of the press release is attached hereto as Exhibit 99.1.

Item 9.01 Financial Statements and Exhibits.

(c) Exhibits.

Exhibit 99.1 Press release

SIGNATURES

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

StemCells, Inc.

November 1, 2006

By: *Rodney K.B. Young*

Name: Rodney K.B. Young
Title: Chief Financial Officer

Exhibit Index

Exhibit No.	Description
99.1	Press Release

Company Contact:
 Rodney Young
 Chief Financial Officer
 (650) 475-3100 ext.105
 irpr@stemcellsinc.com

Media Contact:
 Schwartz Communications, Inc.
 (781) 684-0770
 stemcells@schwartz-pr.com

STEMCELLS ANNOUNCES THIRD QUARTER 2006 FINANCIAL RESULTS

PALO ALTO, Calif., November 1, 2006 – StemCells, Inc. (NASDAQ: STEM) today reported its financial results for the third quarter ended September 30, 2006.

The Company reported a net loss of \$4,863,000, or \$0.06 per share, for the third quarter ended September 30, 2006, compared to a net loss of \$94,000, or \$0.00 per share, for the third quarter ended September 30, 2005. The increase in net loss from 2005 to 2006 was primarily attributable to higher income in the third quarter of 2005, when the Company recorded approximately \$3,748,000 as income, net of legal and other expenses, upon the receipt of shares in ReNeuron Group plc as part of a license and settlement agreement. In addition, the Company adopted Statement of Financial Accounting Standards 123R effective January 1, 2006 and recognized approximately \$696,000 in compensation expense in the third quarter of 2006 related to qualified stock option grants; no such expense was recognized in 2005. The increase in operating expenses was also attributable to the expansion of the Company's operations in cell processing and clinical development. This increase was partially offset by an increase in interest income attributable to a higher average cash balance and higher yield on investments in 2006.

Cash and cash equivalents were approximately \$55,441,000 as of September 30, 2006 as compared to \$34,971,000 at September 30, 2005. The Company's cash balance increased in 2006 due to a \$35,840,000 registered direct placement of 11.75 million shares of common stock to a limited number of institutional investors at \$3.05 per share in April 2006. Net cash used in operating activities for the nine months ended September 30, 2006 was approximately \$12,077,000 compared with approximately \$9,188,000 in the same period in 2005.

About StemCells, Inc.

StemCells, Inc. is a clinical-stage biotechnology company focused on the discovery, development and commercialization of cell-based therapeutics to treat diseases of the nervous system, liver and pancreas. The Company's programs seek to repair or repopulate neural, liver or other tissue that has been damaged or lost as a result of disease or injury. StemCells is the first company to directly identify and isolate human neural stem cells from normal brain tissue. These cells are expandable into cell banks for therapeutic use, which offers the potential of using normal, non-genetically modified cells as cell-based therapies. StemCells has initiated a Phase I clinical trial of its proprietary human neural stem cells (HuCNS-SC™) as a treatment for neuronal ceroid lipofuscinosis (NCL) and anticipates dosing the first patient in that trial later this year. NCL, which is often referred to as Batten disease, is a rare and fatal neurodegenerative disease that affects infants and young children. StemCells has approximately 40 U.S. and 100 non-U.S. patents. Further information about the Company is available on its web site at: www.stemcellsinc.com.

Apart from statements of historical facts, the text of this press release constitutes forward-looking statements regarding, among other things, the future business operations of StemCells, Inc. (the "Company") and its ability to conduct clinical trials as well as its research and product development efforts. The forward-looking statements speak only as of the date of this news release. StemCells does not undertake to update any of these forward-looking statements to reflect events or circumstances that occur after the date hereof. Such statements reflect management's current views and are based on certain assumptions that may or may not ultimately prove valid. The Company's actual results may vary materially from those contemplated in the forward-looking statements due to risks and uncertainties to which the Company is subject, including uncertainty whether results obtained in the animal models of infantile NCL, spinal cord injury, or other diseases and conditions will be able to be translated into treatment for humans; uncertainty as to whether the FDA or other applicable regulators or review boards will permit the Company to continue clinical testing in NCL or in future clinical trials of proposed therapies for other diseases or conditions despite the novel and unproven nature of the Company's technology; uncertainties regarding the timing and duration of any clinical trials; uncertainties regarding the Company's ability to obtain the increased capital resources needed to continue its current research and development operations and to conduct the research, preclinical development and clinical trials necessary for regulatory approvals; uncertainty regarding the validity and enforceability of the Company's patents; uncertainty as to whether HuCNS-SC and any products that may be generated in the future in the Company's stem cell programs will prove safe and clinically effective and not cause tumors or other side effects; uncertainty as to whether the Company will achieve revenues from product sales or become profitable; the Company's likely increase in the use of cash as compared to the Company's historical use of cash; and other factors that are described under the heading "Risk Factors" in Item 1A of the Company's Annual Report on Form 10-K.

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StemCells, Inc.

Condensed Consolidated Statement of Operations

(in thousands, except share and per share amounts)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2006	2005	2006	2005
Revenue from grants and licensing agreements	\$ 18	\$ 91	\$ 80	\$ 163

Operating Expenses				
Research and development	3,523	2,337	9,403	5,925
General & administrative	1,889	1,549	4,979	4,009
Wind-down expenses related to our former corporate headquarters	168	297	499	2,015
Total operating expenses	5,580	4,183	14,881	11,949
Loss from operations	(5,562)	(4,092)	(14,801)	(11,786)
Other income (expense)				
License and settlement agreement, net	—	3,747	103	3,747
Interest Income	735	301	1,779	790
Other income (expense)	(36)	(50)	(127)	(162)
Total other income (expense)	699	3,998	1,755	4,375
Net loss per share applicable to common shareholders; basic and diluted	(\$4,863)	(\$94)	(\$13,046)	(\$7,411)
Net loss per share applicable to common shareholders; basic and diluted	(\$0.06)	(\$0.00)	(\$0.18)	(\$0.12)
Weighted average shares – basic and diluted	77,779,257	64,179,563	73,487,670	63,226,214

StemCells, Inc.

Condensed Consolidated Balance Sheets

	September 30, 2006 (unaudited)	December 31, 2005 (a)
(in thousands)		
Assets		
Current assets:		
Cash & cash equivalents	\$55,441	\$34,541
Other current assets	1,552	589
Total current assets	56,993	35,130
Marketable securities	1,042	3,720
Property, plant & equipment, net	3,803	3,283
Other assets, net	2,615	2,706
Total assets	64,453	44,839
Liabilities and stockholders' equity		
Current liabilities	2,708	3,548
Non-current liabilities	8,835	8,915
Stockholders' equity	52,910	32,376
Total liabilities and stockholders' equity	\$64,453	\$44,839

(a) Derived from audited financial statements included in StemCells' annual report on form 10-K filed with the SEC.