
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):

September 6, 2005

StemCells, Inc.

(Exact name of registrant as specified in its charter)

Delaware

000-19871

94-3078125

(State or other jurisdiction
of incorporation)

(Commission
File Number)

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

3155 Porter Drive, Palo Alto, California

94304

(Address of principal executive offices)

(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 1.01 Entry into a Material Definitive Agreement.

StemCells, Inc. (the "Company") today announced the resignation of Judi R. Lum as CFO and Vice President, Finance, as well as the appointment of Rodney K.B. Young as the Company's new CFO and Vice President, Finance, both effective September 6, 2005. A copy of the press release is attached hereto as Exhibit 99.1.

From 2003 until he joined the Company, Mr. Young, age 43, served as Chief Financial Officer, Director, and co-founder of Extropy Pharmaceuticals, a private biopharmaceutical company focused on developing drugs for pediatric indications. Previously, Young was Managing Director, Healthcare Corporate Finance with SG Cowen Securities Corp. in London, England from 2000 to 2002. He joined Lehman Brothers Inc. in 1989 and served as Senior Vice President, Global Healthcare with Lehman Brothers, Inc. in New York until 1999, and until 2000 as Executive Director, Global Mergers & Acquisitions in London, where he headed the Healthcare Merger & Acquisition team focused on pharmaceutical and biotechnology companies. Mr. Young holds a B.A. degree from the University of Chicago and an M.B.A. from the Chicago Graduate School of Business.

Mr. Young is a signatory to a letter agreement between Mr. Young and the Company that outlines certain terms and conditions of his employment. The agreement provides for annual compensation of \$250,000 per year, which is subject to review at least annually by the Company's compensation committee, beginning January 2007. Mr. Young is also eligible for an annual cash bonus under the Company's bonus plan of up to twenty-five percent of his base salary. The agreement also provides for the grant of options to purchase 450,000 shares of the Company's common stock at the closing price of the stock on the NASDAQ SmallCap Market on the date on which Mr. Young began his employment. The options will vest over 48 months, with one-quarter of the shares vesting, subject to his continued employment by the Company, on the first anniversary of the date on which Mr. Young's employment began and the remaining shares vesting at the rate of 1/48th per month on the last day of each month during the ensuing 36 months. In addition, on the first anniversary of his employment, Mr. Young will be granted an option to acquire no less than 25,000 shares of the Common Stock of the Company at the closing price of the stock on the market on which they are listed on the date of the grant, which, subject to his continued employment by the Company, will also vest over forty-eight (48) months, one quarter of the shares on the first anniversary of the grant and the remaining shares at the rate of one forty-eighth (1/48) per month on the last day of each month during the ensuing thirty-six months. As a condition of his employment, Mr. Young is required to sign the Company's standard form of confidentiality and assignment agreement. In the event that Mr. Young's employment with StemCells is terminated by the Company without Cause as defined or if he resigns for Good Reason as defined, he will receive, as severance, 6 months of salary, at his base salary rate in effect at the time and the Company will pay all premiums necessary to maintain his group health insurance coverage in effect for 6 months after the termination date if he makes the COBRA election. If such a termination occurs within 12 months after a Change of Control as defined, he will receive, as severance, 12 months of salary payments and 12 months of Company-paid COBRA health insurance coverage if he makes the COBRA election, and the Company will "gross him up" for any tax impact associated with this health insurance benefit. Mr. Young's employment is "at will." The description provided above is qualified in its entirety by reference to the full text of Mr. Young's agreement, a copy of which is attached to this Form 8K as exhibit 10.72.

In connection with Ms. Lum's resignation, the Company entered into an Agreement for Consulting Services, the material terms of which are that Ms. Lum (the "Consultant") resigned from the Company's employment, that the Company accepted her resignation, that she agreed to provide consulting services on financial functions of the Company and development and maintenance of financial and accounting practices and procedures, including assistance in assuring the accuracy and timeliness of SEC mandated financial reporting and compliance requirements and advice on strategic business plans, as well as providing information and support to the Company's CFO for a Term of 6 months and two weeks. As compensation, Consultant will be paid \$17,917 per month and, if she elects COBRA, the Company will pay the employer's share of her health plans. These payments will be made for the full Term even if the consulting agreement is terminated early. In addition, the vesting of 106,250 shares of the Company's common stock covered by an option was accelerated to September 6, 2005. Also, when and if Company's Board of Director's awards bonuses for 2005, Consultant will receive 8/12 of that proportion of her target bonus as CFO that is generally awarded. Consultant agrees to abide by the Company's Code of Ethics to the extent relevant to consultants and assumes duties of confidentiality and disclosure of intellectual property conceived or developed during the performance of consulting services. The Company will indemnify Consultant for claims or liabilities arising out of her provision of the consulting services. The agreement is contingent on execution and non-revocation of a Separation Agreement and General Release. The description provided above is qualified in its entirety by reference to the full text of Ms. Lum's agreement, a copy of which is attached to this Form 8K as exhibit 10.73.

Item 5.02 Departure of Directors or Principal Officers; Election of Directors; Appointment of Principal Officers.

ITEM 5.02 (b). Effective September 6, 2005, Judi R. Lum resigned as Chief Financial Officer and Vice President, Finance of StemCells, Inc.

ITEM 5.02 (c). Effective September 6, 2005, Rodney K.B. Young was appointed Chief Financial Officer and Vice President, Finance of StemCells, Inc. Mr. Young's background and the material terms of the letter agreement between him and the Company are set out in Item 1.01 above.

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.

September 7, 2005

By: *Rodney K.B. Young*

Name: Rodney K.B. Young

Title: CFO

Exhibit Index

| <u>Exhibit No.</u> | <u>Description</u> |
|--------------------|--------------------------|
| 10.72 | Young letter agreement |
| 10.73 | Lum consultant agreement |
| 99.1 | Press Release |

Rodney K.B. Young
[address]

Dear Rodney:

On behalf of StemCells, Inc. (the "Company"), I am pleased to offer you the position of Chief Financial Officer and Vice President, Finance, under the terms and conditions that follow. As I have told you, this offer is contingent on Board approval, which I shall seek immediately now that I have your informal agreement. I shall let you know when I have documented the Board's approval, but please reply to this offer in the meanwhile.

You will see that there are a great many enclosures with this letter. I'm sorry to burden you with all of this, but they are, as you'll see, important, and I thought you should have copies as early as possible. Some require your signature, but the only one you need to sign and send back in advance of beginning work is the copy of this letter. You needn't sign the rest until your start date, and we'll have extra copies for you then.

1. Starting Date. The date on which your full-time employment with the Company will start is September 6, 2005.

2. Position and Duties. As Chief Financial Officer and Vice President, Finance, you will be expected to exert your full-time best efforts to promote and protect the business interests of the Company. Specifically, but not exclusively, you will be responsible for overseeing the financial functions of the Company as well as the development and maintenance of financial and accounting practices and procedures. You will have primary responsibility for the Company's relationship with the financial community. You will direct the controllership, accounting, treasury and taxation functions. You will have primary responsibility for the accuracy and timeliness of all SEC mandated financial reporting and compliance requirements. You will direct and integrate the Company's long term financial planning and annual budgeting process. You will assist the Chief Executive Officer in the development of strategic business plans and in long term capital raising activities. You will have primary responsibility for Investor Relations as well as the management of the Company's relationships with the external financial community. You will report directly to the President and Chief Executive Officer. As CFO, you will be an Executive Officer of the Company, with the obligations of disclosure that status entails. For your convenience, I have provided you with a Power of Attorney that you may wish to sign and return to me, authorizing me and two others to file Section 16 forms on your behalf. In addition, and without further compensation, you agree to serve as treasurer of the Board of Directors of the Company (the "Board") and as a director and/or officer of one or more of the Company's Affiliates, if so elected or appointed from time to time. For the purposes of this Agreement, "Affiliates" means all persons and entities directly or indirectly controlling, controlled by or under common control with the Company, where control may be by management authority, equity interest or otherwise. It is understood that your service as treasurer of the Board, and on the board of any Affiliate of the Company, will not continue past your tenure as Chief Financial Officer and Vice President, Finance, and you agree to resign, effective on termination of your employment, from any such positions or directorships you may then hold.

3. Salary. For all services that you perform for the Company and its Affiliates, your base salary will be at the rate of Two Hundred Fifty Thousand Dollars (\$250,000) per year. Your performance and compensation will be reviewed at least annually by the Compensation Committee of the Board of Directors (the "Compensation Committee"), beginning January 2007, and your salary may be increased as determined by the Compensation Committee, in its sole discretion. Your base salary may not be reduced below the level set forth above without your express consent except as part of a company-wide salary action approved by the Board of Directors. In addition, under the Company's Bonus Plan, the Board, in its sole discretion, may award you a cash bonus of up to twenty percent (25%) of your base salary, based on the Board's review of your performance. You will be eligible for inclusion in the Bonus Plan for the 2005 fiscal year on a *pro rata* basis, based on your performance from your date of hire through December 31, 2005.

4. Stock Options. You will be granted options to acquire Four Hundred Fifty Thousand (450,000) shares of the Common Stock of the Company at the closing price of the stock on the market on which they are listed on September 6, 2005, or on the date on which you begin your employment, if later. Two Hundred Twenty-Five Thousand (225,000) of such shares shall be granted through the StemCells, Inc. 2001 Equity Incentive Plan (the "2001 Plan") and Two Hundred Twenty-Five Thousand (225,000) of such shares shall be granted through the StemCells, Inc. 2004 Equity Incentive Plan (the "2004 Plan"), subject to the terms and conditions of the respective Plans. Subject to your continued employment by the Company, these options will vest over forty-eight (48) months as follows: (i) one quarter of the shares will vest on the first anniversary of the grant and (ii) the remaining shares shall vest at the rate of one forty-eighth (1/48) per month on the last day of each month during the ensuing thirty-six months. In addition, on the first anniversary of the date on which your employment with the Company begins, you will be granted an option to acquire no less than Twenty-Five Thousand (25,000) shares of the Common Stock of the Company at the closing price of the stock on the market on which they are listed on the date of the grant, which, subject to your continued employment by the Company, will also vest over forty-eight (48) months on a similar schedule — that is, one quarter of the shares will vest on the first anniversary of the grant and the remaining shares will vest at the rate of one forty-eighth (1/48) per month on the last day of each month during the ensuing thirty-six months.

In the event of a Change of Control (as defined below), the Company will accelerate the vesting of the options and any other stock awards then held by you so that you become fully vested in one hundred percent (100%) of all options and other stock awards held by you as of the date such Change of Control occurs. For purposes of this Agreement, a Change of Control shall mean the occurrence of any of the following: (i) a merger or consolidation involving the Company which results in less than 50% of the combined voting power of the surviving or resulting entity's outstanding securities being held by the stockholders of the Company who were stockholders immediately prior to such transaction, or (ii) the sale, transfer or other disposition of more than 51% of the

Company's assets in a single or related series of transactions, or (iii) within any twenty-four (24) consecutive month period, persons who were members of the Board immediately prior to such twenty-four (24) month period, together with any persons who were first elected as directors (other than as a result of any settlement of a proxy or consent solicitation contest or any action taken to avoid such a contest) during such twenty-four (24) month period by or upon the recommendation of persons who were members of the Board immediately prior to such twenty-four (24) month period and who constituted a majority of the Board at the time of such election, cease to constitute a majority of the Board.

Except as otherwise expressly provided herein, your options shall be governed by the terms of the applicable Plan, as in effect from time to time. A copy of the 2001 and the 2004 Plans as currently in effect are enclosed with this letter.

5. Benefits. As an employee of StemCells, you will be eligible to participate in a comprehensive benefits program which currently includes: medical, dental, and vision benefits for you and your dependents; term life insurance equivalent to one time your annual base salary up to \$200,000 with a statement of good health; short and long-term disability insurance; and a 401(k) savings plan & employer match in company stock. You will be eligible to participate in these plans on the first of the month following your start date, except that you may elect to participate in the 401(k) plan immediately. Details of these benefit plans will be provided to you upon your employment. Your paid time off (PTO) as a full-time employee will be 25 days (five weeks) per year, accrued at a rate of 7.69 hours per pay period. The maximum allowed PTO accrual shall be 44 days (i.e., 352 hours). In addition, the Company currently offers eight paid holidays per year.

6. Conditions of Employment: Employment Agreement, Code of Ethics and Conduct; Right to Work, Medical Exam.

As a condition of accepting this offer of employment, you will be required to (1) complete, sign and return the Company's standard form of Employment Agreement; (2) read the Company's Code of Ethics and Conduct, then complete, sign and return the Employee Certification and Agreement of Compliance attached to it; and (3) within the first three days of employment, provide documents from the enclosed list which prove your identity and right to work in the United States. You hereby represent that you are not now bound by any employment agreement, confidential or proprietary information agreement or similar agreement, with any person or entity including without limitation any current or previous employer, that would impose any restriction on your acceptance of this offer or that would interfere with your ability to fulfill the responsibilities of your position with the Company. To underscore an important aspect of the employment agreement, it is the strong expectation of StemCells that you hold in strictest confidence the confidential business and scientific information of the Company; and that you also refrain from any improper use of or disclosure of proprietary information of your current employer or those with whom you might have an agreement or duty to keep information in confidence,

7. At Will Employment; Termination and Termination Benefits. Your employment with the Company is "at will" and for an unspecified duration, which means that neither this offer letter nor any policy or procedure of StemCells (including the stock vesting and other payments made to you by the Company over time based on your continued employment with the Company), nor any verbal representation, shall confer any right to continuing employment. Either you or StemCells may terminate your employment relationship at any time with or without cause.

In the event that your employment with StemCells is terminated by the Company without Cause (defined below) or you resign for Good Reason (defined below), you will receive, as severance, an amount equal to six (6) months' of salary, at your base salary rate in effect at the time your employment terminates. This amount will be paid out over six (6) months, on the same schedule as salary payments are made to employees generally, and will be subject to the same withholding and other deductions, and legally required employer contributions as salary. Employee benefits, including 401(k) contributions by the Company, will terminate on your employment termination date, but StemCells will pay all premiums necessary to maintain your group health insurance coverage in effect for six (6) months after the termination date, if you make the COBRA election.

If your employment is terminated by the Company without Cause or by you for Good Reason within twelve (12) months after a Change of Control (as defined above), the Company will pay you, as severance, twelve (12) months of continuing base salary payments (at your last base salary rate), and provide you with twelve (12) months of Company-paid COBRA health insurance coverage, if you make the COBRA election. The Company will "gross you up" for any tax impact to you associated with this health insurance benefit. These severance benefits shall be in addition to any other option-related benefits to which you may be entitled under the governing equity incentive plans or under this Agreement. These severance benefits shall, however, be instead of and not in addition to the severance benefits provided in the preceding paragraph.

For the purposes of this Section, "Cause" means any of the following, as determined by the Company in its reasonable judgment, (i) your willful failure to perform your material duties and responsibilities to the Company (including, without limitation, those duties and responsibilities described in this letter; (ii) your material breach of the obligations of confidentiality in this letter agreement, your "Employment Agreement" or of the Company's Code of Ethics and Conduct; (iii) fraud, embezzlement or other material dishonesty with respect to the Company or any of its Affiliates; or (iv) your conviction of, or plea of nolo contendere to, a felony.

For purposes of this Section, "Good Reason" for you to resign your employment shall exist if, without your consent, there is a material breach by the Company of any provision of this Agreement, including, without limitation, any material diminution in your authority or responsibilities from that contemplated by Section 2 hereof, which breach continues for more than ten (10) business days following receipt by the Company of written notice from you setting forth in reasonable detail the nature of such breach.

Your employment with the Company remains "at will" as provided in the first paragraph of this Section 7, and in the event of termination of your employment, you will not be entitled to any severance pay or other benefits, damages or compensation of any kind, except as expressly provided in this Agreement.

8. Indemnification. The Company shall indemnify you for all acts and omissions by you in the course and scope of your employment hereunder to the maximum extent extended to any other officer of the Company, and to the fullest extent provided by law. The Company's obligations under this provision shall survive termination of your employment for any reason.

9. Withholding. All payments and reimbursements made by the Company under this Agreement shall be reduced by any tax or other amounts required to be withheld by the Company under applicable law.

10. Assignment. Neither you nor the Company may make any assignment of this Agreement or any interest herein, by operation of law or otherwise, without the prior written consent of the other; provided, however, that the Company may assign its rights and obligations under this Agreement without your consent to one of its Affiliates or to any Person with whom the Company shall hereafter affect a reorganization, consolidation or merger or to whom the Company transfers all or substantially all of its properties or assets. This Agreement shall inure to the benefit of and be binding upon you and the Company and each of your respective successors, executors, administrators, heirs and permitted assigns.

11. Waiver. Except as otherwise expressly provided in this Agreement, no waiver of any provision hereof shall be effective unless made in writing and signed by the waiving party. The failure of either party to require performance of any term or obligation of this Agreement, or the waiver by either party of any breach of this Agreement, shall not prevent any subsequent enforcement of such term or obligation or be deemed a waiver of any subsequent breach.

12. Severability. If any portion or provision of this Agreement shall to any extent be declared illegal or unenforceable by a court of competent jurisdiction, then the remainder of this Agreement, or the application of such portion or provision in circumstances other than those as to which it is so declared illegal or unenforceable, shall not be affected thereby, and each portion and provision of this Agreement shall be valid and enforceable to the fullest extent permitted by law.

13. Notices. Except as otherwise expressly provided herein, any notices, requests, demands and other communications provided for by this Agreement shall be in writing and shall be effective when delivered in person or deposited in the United States mail, postage prepaid, registered or certified, and addressed to you at your last known address on the books of the Company or, in the case of the Company, at its main office, attention of the Chairman of the Board.

14. Captions. The captions and headings in this Agreement are for convenience only and in no way define or describe the scope or content of any provision of this Agreement.

15. Entire Agreement. This Agreement sets forth the entire agreement and understanding between you and the Company regarding your employment and any related matters and supersedes all prior communications, agreements and understandings, written and oral, with respect to those matters. This Agreement may not be amended or modified, except by an agreement in writing signed by you and the Chairman of the Board or other specifically authorized representative of the Company.

16. Governing Law. This Agreement shall be governed, construed and enforced in accordance with the laws of California, without regard to the conflict of laws principles thereof.

17. No Conflicting Agreements. You hereby represent to the Company that neither your execution and delivery of this Agreement nor your acceptance of employment with the Company nor your performance under this Agreement will conflict with or result in a breach of any of the terms, conditions or provisions of any agreement to which you are a party or are bound or any order, injunction, judgment or decrees of any court or governmental authority or any arbitration award applicable to you.

18. Compliance with Agreement. The Company's obligations under this Agreement and its obligation to deliver stock under the terms of the stock options granted pursuant to the terms of this Agreement (or otherwise granted you during the course of your employment) are conditioned on your compliance with the terms and conditions of this Agreement and the accuracy of the representations made to the Company by you herein.

If the foregoing is acceptable to you, please sign the enclosed copy of this letter in the space provided below and return it to me, whereupon this letter and such copy will constitute a binding agreement between you and the Company on the basis set forth above as of the date first above written.

Sincerely yours,

STEMCELLS, INC.

By: /s/

Martin McGlynn
President and CEO

Accepted and agreed:
/s/

Rodney K.B. Young
Date: _____

8/17/2005

2004 Equity Incentive Plan (see Section 4)

Benefits Summary (see Section 5)

List of documents demonstrating right to work (see Section 6)

Copy of this letter, for signature and return

AGREEMENT FOR CONSULTING SERVICES

This Agreement is made by and between StemCells, Inc. (the "Company") and Judi Lum (the "Consultant"), and shall be effective as of the date that Rodney K.B. Young takes office as the Company's Chief Financial Officer or September 7, 2005, whichever is earlier (the "Effective Date").

1. Consultant hereby agrees to resign from the Company's employment effective on the Effective Date and the Company hereby agrees to accept her resignation.
2. Services. The Consultant shall provide to the Company consulting services in the field referred to in Exhibit A/Item 1 or as otherwise agreed by the parties in accordance with the terms and conditions contained in this Agreement.
3. Term. The services provided by the Consultant to the Company shall be performed for the term set forth in Exhibit A/Item 2. The Consultant shall coordinate work efforts and report progress regularly to the individual set forth in Exhibit A/Item 3.
4. Payment for Service Rendered. For providing the consulting services as referred herein, the Company shall compensate the Consultant as set forth in Exhibit A/Item 4. In addition to all other compensation, the Company shall cause one quarter of the option shares granted Consultant in November 2004 (i.e., 106,250 shares) to vest on the Effective Date hereof, and to remain exercisable for 3 months thereafter. As of the Effective Date, Company shall also pay Consultant any accrued unused paid time off ("PTO"). Further, Company shall contribute to Consultant's existing 401(k) plan a quarterly match of the lesser of 3% of earned income or half of Consultant's contribution (up to a maximum of 6% of Consultant's salary) up to the Effective Date, including accumulated PTO if any.
5. Consultant's Warranties. The Consultant hereby warrants that the Consultant is in no way compromising any rights or trust relationships between any other party and the Consultant, or creating a conflict of interest for the Consultant. The Consultant further warrants that she is entitled to enter into this Agreement.
6. Ethics Policy. The Company's Corporate Code of Ethics and Conduct (the "Code") is attached to this Agreement as Exhibit B. Consultant agrees to abide by all relevant provisions of the Code for the duration of this Agreement.
7. Nature of Relationship. The Consultant is an independent contractor and will not act as an agent of the Company nor shall be deemed an employee of the Company for the purposes of any employee benefit programs, unemployment benefits or otherwise. Because the Consultant has heretofore been an employee of the Company, however, income taxes and other normal payroll deductions will be withheld from Consultant's payments as provided in Exhibit A/Item 4. The Consultant shall not enter into any agreement or incur any obligations on the Company's behalf, or commit the Company in any manner, without the Company's prior written consent.
8. Inventions, Patents and Technology. The Consultant shall promptly and fully disclose to the Company any and all inventions, improvements, discoveries, developments, original works of authorship, trade secrets, or other intellectual property ("Proprietary Information") conceived, developed or reduced to practice by the Consultant during the performance of the consulting services performed for the Company hereunder and related to such services, regardless of whether such Proprietary Information is patentable, copyrightable, both or neither. The Consultant shall treat all Proprietary Information as the confidential information of the Company. The Consultant agrees to, and does hereby, assign to the Company and its successors and assigns, without further consideration, the entire right, title and interest in and to each of the Proprietary Information, including the copyright in the case of copyrightable works. The Consultant further agrees to execute all applications for patents and/or copyrights, domestic or foreign, assignments and other papers necessary to secure and enforce rights relating to the Proprietary Information.
9. Confidentiality. The Consultant agrees not to use (except for the Company's benefit) or divulge to anyone, either during the term of this Agreement or thereafter, any of the Company's trade secrets, the Proprietary Information or other proprietary data acquired by the Consultant in carrying out the terms of this Agreement. The Consultant further agrees to turn over to the Company, or make such disposition thereof as may be directed or approved by the Company, any notebook, data, information or other material acquired or compiled by the Consultant in carrying out the terms of this Agreement.
10. Termination.
 - a. Either party may terminate this Agreement by giving written notice at any time after the first two weeks following the Effective Date. In such event, Company shall pay Consultant the amount due through the End Date as set forth in in Exhibit A/Item 2.
 - b. Termination shall not relieve Consultant of any continuing obligations under paragraphs 8 or 9, nor relieve Consultant and/or the Company of any continuing obligations under Exhibit A/Item 4 and Exhibit C of this Agreement, all of which shall survive termination or expiration of this Agreement.
11. Consultant's Covenants. Consultant agrees to notify the Company before accepting employment, a consultancy, or entering a relationship of any other kind with any potential competitor of the Company. If the Company determines that Consultant's relationship with such a competitor creates an irreconcilable conflict of interest, it may terminate the Agreement immediately.

12. The parties hereto agree that this Agreement is contingent on the execution and non-revocation of the Separation Agreement and General Release attached as Exhibit C hereto.
13. Indemnification. Company shall indemnify and hold harmless Consultant against any claims or liabilities arising out of Consultant's provision of consulting services hereunder to the fullest extent permitted by law, except and to the extent that such claims or liabilities arise from Consultant's wilful misconduct or gross negligence.
14. Miscellaneous.
- a. No failure on the part of either party to exercise, and no delay in exercising, any right or remedy hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any right or remedy hereunder preclude any other or further exercise thereof or the exercise of any other right or remedy granted hereby, or by any related document or by law.
- b. This Agreement shall be deemed to be a contract made under the law of the State of California and for all purposes it, and any related or supplemental documents and notices, shall be construed in accordance with and governed by the law of such State.
- c. This Agreement may not be and shall not be deemed or construed to have been modified, amended, rescinded, canceled or waived, in whole or in part, except by written instruments signed by the parties hereto.
- d. This Agreement, including the exhibits attached hereto and made a part hereof, constitutes and expresses the entire Agreement and understanding between the parties. All previous discussions, promises, representations and understandings between the parties relative to this Agreement, if any, have been merged into this document.
- e. The Consultant may not subcontract any part or all of the services to be provided without the prior written consent of the Company.

In witness whereof, the parties have executed this Agreement on August 30, 2005.

StemCells, Inc.

Consultant

_____/s/_____

_____/s/_____

By: Iris Brest
General Counsel
3155 Porter Drive
Palo Alto, California 94304

address: Judi Lum

Tel: 650.475.3106

Tel: _____
SS No. ___[SS No.]___

Exhibit A

1. Description of consulting services: Consulting on financial functions of the Company and development and maintenance of financial and accounting practices and procedures, including assistance in assuring the accuracy and timeliness of SEC mandated financial reporting and compliance requirements and advice on strategic business plans; providing information and support to the Company's CFO. The services shall be provided by phone, fax and/or e-mail, and on site at the Company as may be appropriate and convenient during the term of this Agreement. After the first two weeks of this Agreement, Consultant shall provide said services only at the request of the Company subject to Consultant's availability and consent.
2. Duration of Agreement: This Agreement for consulting services begins on the Effective Date and will end without further notice six (6) months and two (2) weeks after the Effective Date (the "End Date") unless sooner terminated in accordance with paragraph 10.
3. The Consultant shall report to: Rodney K.B. Young
4. Payment for services: For services to be rendered by the Consultant hereunder, at the request of the Company, the Company will pay the Consultant Seventeen Thousand Nine Hundred seventeen dollars (\$17,917) per month, on the same schedule as salary payments are made to Company employees, subject to the same withholding and other deductions and legally-required employer contributions as if the payments were salary. No Company 401(k) contributions or other employee benefits will be paid. If the Consultant makes the COBRA election, the Company will pay the employer's share of Consultant's health plans (medical, vision and dental, including the Health Savings Account deductible) until the End Date. The Consultant will also be reimbursed for reasonable expenses that are directly related to consulting requested by the Company; such expenses will be reimbursed within 30 days of the receipt of a signed request detailing expenses (with receipts). In the event this Agreement is terminated by Consultant under section 10, payments shall continue to be made on a monthly (and/or bi-weekly) basis through the End Date. In the event this Agreement is terminated by the Company under Section 10, amounts that would have become due and payable during the period from the date of such termination through the End Date but not yet paid shall be paid to Consultant within

30 days of such termination. In addition to the other payments mentioned above, when and if Company's Board of Directors awards bonuses for 2005, Consultant shall receive 8/12 of that proportion of her target bonus that is generally awarded; the 8/12 reflects the proration for the fraction of the year during which she served as CFO. Such bonus shall be paid whether or not this Agreement has been terminated by either party under Section 10. For the avoidance of doubt, it is specifically agreed that declaring a Company bonus, and the amount of such bonus, if any, are matters in the complete discretion of the Company's Board of Directors.

Media Contact:

Jayne Maniatis
Schwartz Communications, Inc.
(781) 684-0770 or (415) 512-0770
stemcells@schwartz-pr.com

STEMCELLS APPOINTS RODNEY K.B. YOUNG CFO AND VP, FINANCE

PALO ALTO, Calif., (September 7, 2005) – StemCells, Inc. (NASDAQ: STEM) today announced the appointment of Rodney K.B. Young as Chief Financial Officer and Vice President, Finance, effective September 6, 2005. Young brings financial and administrative experience in the healthcare field to the Company, including extensive international experience in healthcare investment banking.

Most recently, Young served as Chief Financial Officer, Director, and co-founder of Extropy Pharmaceuticals, a private biopharmaceutical company focused on developing drugs for pediatric indications. Previously, Young was Managing Director, Healthcare Corporate Finance with SG Cowen Securities Corp. in London, England from 2000 to 2002. Prior to that, he was Senior Vice President, Global Healthcare with Lehman Brothers, Inc. in New York, and then Executive Director, Global Mergers & Acquisitions in London, where he headed the Healthcare Merger & Acquisition team focused on pharmaceutical and biotechnology companies.

“We are delighted to have Rodney join us,” said Martin McGlynn, President and Chief Executive Officer of StemCells. “Given his broad experience in the structuring and financing of major biotechnology companies, we look forward to his contributions to our finance, operations and business strategy as StemCells makes plans for its ultimate transition from a development stage company to a mature commercial entity.”

Judi Lum, the Company’s former Chief Financial Officer, is resigning to pursue other business opportunities. “We are grateful to Judi for her many contributions as CFO, and especially for guiding us through the maze of Sarbanes-Oxley compliance. She has agreed to stay on as an advisor to the Company to ensure that the transition is smooth and effective,” added McGlynn.

About StemCells, Inc.

StemCells, Inc. is a development stage biotechnology company focused on the discovery, development and commercialization of stem cell-based therapies to treat diseases of the nervous system, liver and pancreas. The Company’s stem cell programs seek to repair or repopulate neural 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 stem cells are expandable into cell banks for therapeutic use, which demonstrates the feasibility of using normal, non-genetically modified cells as cell-based therapies. StemCells is the only publicly traded company solely focused on stem cell research and development and has more than 40 U.S. and 100 non-U.S. patents, as well as 100 patent applications pending worldwide. 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”). 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 uncertainties regarding the Company’s ability to obtain the 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; the fact that the Company’s stem cell technology is at the pre-clinical stage and has not yet led to the development of any proposed product; the uncertainty whether the Company will be able to file an IND in the time it projects and whether the FDA will permit it to proceed to clinical testing; the uncertainty regarding the validity and enforceability of issued patents; the uncertainty whether any products that may be generated in the future in the Company’s stem cell programs will prove clinically effective and not cause tumors or other side effects; the uncertainty whether the Company will achieve revenues from product sales or become profitable; uncertainties regarding the Company’s obligations in regard to its former encapsulated cell therapy facilities in Rhode Island; and other factors that are described in Exhibit 99 to the Company’s Annual Report on Form 10-K titled “Cautionary Factors Relevant to Forward-Looking Statements.”

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