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

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarter ended: September 30, 2001

Commission File Number: 0-19871

STEMCELLS, INC.

(Exact name of registrant as specified in its charter)

DELAWARE	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 executive offices including zip code)

525 Del Rey Avenue, Suite C, Sunnyvale, CA 94086

(Former address of principal executive offices) (zip code)

(650) 475-3100

(Registrant's telephone number, including area code)

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 twelve months (or for such shorter periods that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes | X| No | |

At November 05, 2001 there were 23,472,532 shares of Common Stock, $.01 par value, issued and outstanding.

STEMCELLS, INC.

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PART I - ITEM 1 - FINANCIAL STATEMENTS

STEMCELLS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2001	December 31, 2000
	(unaudited)	(a)
Assets		
Current assets:		
Cash and cash equivalents	$ 11,853,983	$ 6,068,947
Short-term restricted investments	-	16,356,334
Accrued interest receivable	14,917	16,725
Prepaid rent	87,605	-
Other current assets	265,372	524,509
Total current assets	12,221,877	22,966,515
Property held for sale	3,203,491	3,203,491
Property, plant and equipment, net	1,254,201	1,451,061
Other assets, net	2,471,529	2,173,912
Total assets	$ 19,151,098	$29,794,979
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 168,067	$ 526,191
Accrued expenses	1,005,140	837,358
Accrued wind-down costs	557,163	1,780,579
Current maturities of capitalized lease obligations	335,000	332,083
Total current liabilities	2,065,370	3,476,211
Capitalized lease obligations, less current maturities	2,353,750	2,605,000
Deposits	129,896	26,000
Deferred rent	862,860	705,746
Stockholders' equity		
Convertible preferred stock, $.01 par value; 1,000,000 shares authorized, 2,626 designated as 6% Cumulative Convertible Preferred Stock 1,500 shares issued and outstanding at September 30, 2001, and December 31, 2000	1,500,000	1,500,000
Common stock, $.01 par value; 45,000,000 shares authorized; 23,455,137 and 20,956,887 shares issued and outstanding at September 30, 2001 and December 31, 2000, respectively	234,555	209,569
Additional paid in capital	144,270,287	138,150,067
Accumulated deficit	(130,422,200)	(130,498,187)
Accumulated other comprehensive income	-	16,356,334
Deferred compensation	(1,843,420)	(2,735,761)
Total stockholders' equity	13,739,222	22,982,022
Total liabilities and stockholders' equity	$ 19,151,098	$ 29,794,979

(a) Derived from the Company's audited financial statements as of December 31, 2000

See accompanying notes to condensed consolidated financial statements.

PART I - ITEM 1 - FINANCIAL STATEMENTS

STEMCELLS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	2000	2001	2000
Revenue:				
Revenue from grants	$276,537	$ -	$ 376,537	$ -
Revenue - assignment of technology rights	-	-	300,000	-
Total revenue	276,537	-	676,537	-
Operating expenses:				
Research and development	1,554,558	1,328,263	6,057,957	3,350,101
General and administrative	564,068	744,404	2,661,230	2,172,137
Wind-down expenses	-	480,087	-	768,733
	2,118,626	2,552,754	8,719,187	6,290,971
Loss from operations	(1,842,089)	(2,552,754)	(8,042,650)	(6,290,971)
Other income (expense):				
Investment income	55,001	80,248	180,334	218,480
Interest expense	-	(66,720)	-	(209,287)
Gain on sale of investments	-	-	7,782,398	1,427,686
Loss on disposal of fixed assets	-	-	(24,484)	(11,098)
Other income	-	-	180,389	-
Total other income, net	55,001	13,528	8,118,637	1,425,781
Net income (loss)	($ 1,787,088)	($ 2,539,226)	$75,987	($4,865,190)
Income (loss) per share:				
Net Income (loss)	(1,787,088)	(2,539,226)	75,987	(4,865,190)
Deemed dividend	-	-	-	(265,000)
Net Income (loss) attributable to common shareholders	(1,787,088)	(2,539,226)	75,987	(5,130,190)
Basic earnings per share:				
Net income (loss) per share	($0.08)	($ 0.13)	$0.00	($ 0.26)
Weighted average shares -	22,998,028	20,203,573	21,840,134	19,682,590
Diluted earnings per share:				
Net income (loss) per share	($0.08)	($ 0.13)	$0.00	($ 0.26)
Weighted average shares	22,998,028	20,203,573	23,464,951	19,682,590

See accompanying notes to condensed consolidated financial statements.

PART I - ITEM 1 - FINANCIAL STATEMENTS

STEMCELLS, INC.

CONDENSED STATEMENTS OF CASH FLOWS

(unaudited)	Nine Months Ended September 30, 2001	Nine Months Ended September 30, 2000
Cash flows from operating activities:		
Net income (loss)	$ 75,987	($4,865,190)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	475,965	617,447
Gain on sale of investments	(7,782,398)	(1,427,686)
Loss on disposal of fixed assets	24,484	-
Gain on assignment of technology rights	(300,000)	-
Compensation expense relating to the grant of stock options	735,921	464,363
Net changes in operating assets and liabilities	(1,015,592)	(3,086,775)
Net cash used in operating activities	(7,785,633)	(8,297,841)
Cash flows from investing activities:		
Proceeds from sale of investments	7,782,398	1,427,686
Purchase of property, plant and equipment	(249,189)	(18,901)
Acquisition of other assets	(50,345)	-
Proceeds from assignment of technology rights	300,000	2,800,000
Net cash provided by investing activities	7,782,864	4,208,785
Cash flows from financing activities:		
Proceeds from the exercise of warrants	2,244,533	-
Proceeds from the exercise of stock options	139,001	553,586
Proceeds from the issuance of stock, net	3,652,604	4,764,150
Proceeds from issuance of preferred stock, net of costs	-	1,500,000
Principal payments under capitalized lease obligations and mortgage payable	(248,333)	(241,667)
Net cash provided by financing activities	5,787,805	6,576,069
Net increase in cash and cash equivalents	5,785,036	2,487,013
Cash and cash equivalents, beginning of period	6,068,947	4,760,064
Cash and cash equivalents, end of period	$11,853,983	$7,247,077
Supplemental disclosure of cash flow information:		
Interest paid	$ 189,764	$ 209,287

See accompanying notes to condensed financial statements.

PART I - ITEM 1. - FINANCIAL STATEMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
September 30, 2001 and 2000

NOTE 1. BASIS OF PRESENTATION

The accompanying, unaudited, condensed consolidated financial statements have been prepared by us in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, the accompanying financial statements include all adjustments, consisting of normal recurring accruals, considered necessary for a fair presentation of the financial position, results of operations and cash flows for the periods presented. Results of operations for the nine months ended September 30, 2001 are not necessarily indicative of the results that may be expected for the entire fiscal year ending December 31, 2001.

The balance sheet at December 31, 2000 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required for complete financial statements in accordance with accounting principles generally accepted in the United States. For the complete financial statements, refer to the audited financial statements and footnotes thereto as of December 31, 2000, included on Form 10-K as amended.

NOTE 2. NET INCOME (LOSS) PER SHARE

Basic net income (loss) per common share is computed using the weighted average number of common shares outstanding during the period. Diluted net income (loss) per share is computed using the weighted average of common and diluted equivalent stock options and warrants outstanding during the period. Stock options and warrants that are antidilutive are excluded from the calculation of diluted income per common share. We excluded all stock options and warrants from the calculation of diluted loss per common share for the three-month period ended September 30, 2000 and 2001, and for the nine month period ended September 30, 2000, as these securities are antidilutive for these periods.

NOTE 3. COMPREHENSIVE INCOME

The only component of other comprehensive loss is unrealized gains and losses on available for sale securities. For the three months ended September 30, 2001 and 2000, total comprehensive income (loss) was ($1,787,088) and $5,444,942 respectively. For the nine months ended September 30, 2001 and 2000, total comprehensive income was $75,987 and $22,339,142 respectively.

NOTE 4. WIND-DOWN OF ENCAPSULATED CELL TECHNOLOGY RESEARCH AND DEVELOPMENT PROGRAM

As previously reported, in 1999 we restructured our operations to abandon all further encapsulated cell technology research and concentrate our resources on the research and development of our proprietary platform of stem cell technologies. We relocated our remaining research and development activities and our corporate headquarters to California, and have been seeking to dispose of our former science and administrative and pilot manufacturing facilities in Rhode Island. In December 2000, we had a reserve of $1,780,579 related to the carrying costs for the Rhode Island facilities through 2001. On February 2001, we subleased portions of the facilities and are actively seeking to sublease, assign or sell our remaining interests in the properties. However, there can be no assurance that we will be able to dispose of these facilities in a reasonable time, if at all. At September 30, 2001 the reserve was $557,163.

Reserve as at 12/31/2000	Payments	Reserve as at 09/30/01
$1,780,579	$1,223,416	$557,163

NOTE 5. INVESTMENTS

At December 31, 2000, we owned 126,193 shares of Modex Therapeutics Ltd. ("Modex"), a Swiss biotechnology company traded on the Swiss Exchange. On January 9, 2001, we sold 22,616 Modex shares for a net price of 182.00 Swiss francs per share, which converts to $112.76 per share, for total proceeds of $2,550,230. On April 30, 2001, we sold our remaining shares in Modex for a net price of 87.30 Swiss Francs per share, which converts to approximately $50.51 per share, for total proceeds of approximately $5,232,168, net of commissions and fees. We no longer hold any shares of Modex.

NOTE 6. ASSIGNMENT OF RIGHTS

On April 30, 2001, in consideration for $300,000 received from Modex and the assistance of Modex in executing the sale of StemCells holding of Modex shares, StemCells agreed to assign to Modex the rights concerning future payments under the Asset Purchase and License Agreement between StemCells, Inc. and Neurotech SA, by which Neurotech SA purchased our former encapsulated cell therapy technology. StemCells, Inc. has no further rights or obligations under the agreement.

NOTE 7. SALE OF SECURITIES

On August 3, 2000, we completed a $4 million common stock financing transaction with Millennium Partners, LP (the "Fund"). The Fund purchased our common stock at $4.33 per share. As set forth in an adjustable warrant issued to the Fund on the closing date, the Fund may be entitled to receive additional shares of common stock on eight dates beginning six months from the closing and every three months thereafter. The adjustable warrant may be exercised at any time prior to the thirtieth day after the last of such dates. On the first adjustment date, January 27, 2001, the Fund became entitled to purchase 463,369 additional shares, and it has exercised its warrant as to such shares. On April 27, 2001, the Fund became entitled to purchase 622,469 additional shares, and it has exercised its warrant as to such shares. On July 26, 2001 the Fund became entitled to purchase 25,804 additional shares and it has exercised its warrant as to such shares. On October 24, 2001 the Fund became entitled to purchase 26,191 additional shares. The number of additional shares the Fund may be entitled to on each date will be based on the number of shares of common stock the Fund continues to hold on each date and the market price of our common stock over a period prior to each date. The exercise price per share under the adjustable warrant is $.01. We will have the right, under certain circumstances, to cap the number of additional shares by purchasing part of the entitlement from the Fund at a purchase price based on the market price of such shares. The Fund also received a five-year warrant to purchase up to 101,587 shares of common stock at $4.725 per share. This warrant is callable at any time by StemCells at $7.875 per underlying share. The calculated value of this callable warrant using the Black-Scholes method was $376,888, which we accounted for as stock issuance cost that has no impact on stockholders' equity. We have accounted for the sale of the stock and warrants by adding that portion of the proceeds equal to the par value of the new shares to common stock and the balance, including the value of the warrants, to additional paid in capital. In addition, any repurchase of the shares by us would also be accounted for through additional paid in capital.

In the Purchase Agreement governing the August 3, 2000 sale to the Fund, we granted the Fund an option to purchase up to an additional $3 million of our common stock and a callable warrant and an adjustable warrant. The Fund had the right to exercise this option in whole or in part at any time prior to August 3, 2001. The price per share of common stock to be issued upon exercise of the option will be based on the average market price of the common stock for a five-day period prior to the date on which the option is exercised. On August 23, 2000, the Fund exercised $1,000,000 of its option to purchase additional common stock. The Fund purchased our common stock at $5.53 per share, which amount was based upon the average market price of the common stock for the five-day period prior to August 23, 2000. An adjustable warrant similar to the one issued on August 3, 2000 was issued to the Fund on August 30, 2000, but was cancelled on November 1, 2000 by agreement between StemCells and the Fund. The Fund also received a five -year warrant to purchase up to 19,900 shares of common stock at $6.03 per share. This warrant is callable by us at any time at $10.05 per underlying share. The calculated value of this callable warrant using the Black-Scholes method is $139,897, which we account for as stock issuance cost that has no impact on stockholders' equity.

On June 8, 2001, the Fund exercised its remaining option to purchase $2,000,000 of our common stock. At the closing on June 21, 2001, the Fund purchased 457,750 shares of our common stock at $4.3692 per share. We received $1,500,000 of the purchase price at the closing on June 21, 2001, and we received the remaining $500,000 on August 29, 2001 after the effectiveness of a registration statement related to these shares. The Fund also received a warrant to purchase 50,352 shares of our common stock at a price per share of $4.7664. This warrant is callable by us at any time at $7.944 per underlying share. The calculated value of this callable warrant using the Black-Scholes method is $184,288, which we account for as stock issuance cost that has no impact on stockholders' equity. In addition, the Fund received an adjustable warrant similar to the adjustable warrant issued to the Fund on August 3, 2000. The adjustable warrant contains provisions regarding the adjustment or replacement of the warrants in the event of stock splits, mergers, tender offers and other similar events. The adjustable warrant also limits the number of shares that can be beneficially owned by the Fund to 9.99% of the total number of outstanding shares of Common Stock.

NOTE 8. LEASES

As of February 1, 2001, we entered into a 5-year lease for a 40,000 square foot facility located in the Stanford Research Park in Palo Alto, California. The new facility includes animal space, laboratories, offices, and a GMP (Good Manufacturing Practices) suite. GMP facilities can be used to manufacture materials for clinical trials. The rent will average approximately $3.2 million per year over the term of the lease. We paid $1.2 million upfront related to this new lease. Approximately $909,000 of this payment has been recorded as prepaid rent and is being amortized up to and including October 2001. In May 2001, we entered into a space-sharing agreement effective February 1, 2001, covering approximately 11,000 square feet of the 40,000 square foot facility. We received $314,523 upfront and $307,630 as payment for the months February 2001 to June 2001. Effective July 2001 we will receive $ 47,561 per month covering rent and operating expenses. We entered into an additional space sharing agreement effective September 2001 covering approximately 1,973 square feet. We received $ 41,436 upfront and will receive $ 13,812 per month plus operating expenses as charged.

On April 27, 2001,we reached an agreement to terminate as of May 15, 2001, without cost, our lease on part of our former Sunnyvale headquarters. The lease on the remaining portion of our former Sunnyvale headquarters terminated August 31, 2001.

We continue to lease the facilities in Lincoln, Rhode Island obtained in connection with our former encapsulated cell technology, but have now succeeded in subleasing parts of those facilities: the 3,000 square-foot cell processing facility and approximately one-third of our former scientific and administrative facility ("SAF"). We continue to seek to sublet the remainder of the approximately 65,000 square foot SAF and the 21,000 square-foot pilot manufacturing facility, or to assign or sell our interests in these properties. There can be no assurance however, that we will be able to dispose of these properties in a reasonable time, if at all.

NOTE 9. GRANTS

In February 2001, we were awarded a two-year, $300,000 per year grant from the National Institute of Health's Small Business Innovation Research (SBIR) office. The grant, which will support joint work with virologist Dr. Jeffrey Glenn at Stanford University, is aimed at characterizing the human cells that can be infected by human hepatitis viruses and to develop a small animal model using the cells that are most infectable by these viruses to develop screening assays and identify novel drug therapies for the disease. We received $ 227,556, of which $77,923 represents our share of the joint effort through June 30, 2001 and has been recognized as revenue. The remainder, $149,633, was paid to Stanford University as its share of the joint effort. In addition we received and recognized as revenue $298,614 for research from a prior SBIR grant relating to the neural program.

On September 30 2001, we were awarded a four-year, $225,000 per year grant from the National Institute of Diabetes & Digestive & Kidney Disorders of the National Institutes of Health for our liver stem cell program which focuses on identifying liver stem and progenitor cells for the treatment of liver diseases. The grant is subject to the availability of funds and satisfactory progress of the project.

NOTE 10. EQUITY LINE

On May 10, 2001, we entered into a common stock purchase agreement with Sativum Investments Limited ("Sativum") for the potential future issuance and sale of up to $30,000,000 of our common stock, subject to restrictions and other obligations. We, at our sole discretion, may draw down on this facility, sometimes termed an equity line, from time to time, and Sativum is obligated to purchase shares of our common stock at a 6% discount to a volume weighted average market price over the 20 trading days following the draw-down notice. Our volume weighted average market price is calculated by adding the total dollars traded in every transaction in a given trading day and dividing that number by the total number of shares traded during that trading day. We are limited with respect to how often we can exercise a draw down and the amount of each draw down.

In connection with our execution of the common stock purchase agreement with Sativum, we issued three three-year warrants to purchase an aggregate of 350,000 shares of our common stock at $2.38 per share to Sativum (250,000 shares), Pacific Crest Securities Inc. (75,000 shares) and Granite Financial Group, Inc. (25,000 shares). We have valued the warrants using the Black-Scholes method. The amounts of $522,500, $167,750 and $55,250 respectively, were accounted for as stock issuance cost in stockholders' equity. The exercise price and number of shares are subject to adjustment for subdivisions, combinations, stock dividends and reorganizations.

On July 2, 2001, the Securities and Exchange Commission declared effective a registration statement with respect to up to 10,350,000 shares of our common stock, which we may issue pursuant to the Sativum common stock purchase agreement and to the warrants issued in connection with it. We cannot sell more than 3,922,606 shares pursuant to the agreement without stockholder approval. We delivered a draw down notice to Sativum Investments Limited, dated as of July 11, 2001, exercising our right to draw down up to $5,000,000 at a market-based share price not less than $5.00 per share beginning July 12, 2001. Sativum purchased a total of 707,947 shares of our common stock at an average purchase price of $5.65 per share, net of Sativum's discount of six percent. Because the market based price of our common stock was less than $ 5.00 for 4 trading days during the draw down period, our $5,000,000 request was reduced to $4,000,000. Our placement agents, Pacific Crest Securities, Inc. and Granite Financial Group, Inc. received $80,000 and $40,000, respectively, as placement fees in connection with this draw down, resulting in net proceeds to us of $3,652,604, after paying escrow fees and other associated costs. Our placement agents have exercised their warrants in full, and we have received payment of $238,000 for the shares issued to them.

NOTE 11. RECENT ACCOUNTING PRONOUNCEMENTS

In June 1998, The Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Financial Instruments and for Hedging Activities" ("SFAS 133"). The Statement requires the Company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in fair value of derivatives are either offset against the change in fair value of assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. As the Company had no derivative instruments and does not currently engage in hedging activities, the adoption of Statement No. 133 on January 1, 2001 had no impact on StemCells results, operations or financial statement.

In July 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards (SFAS) No. 141, BUSINESS COMBINATIONS, and SFAS No. 142, GOODWILL AND OTHER INTANGIBLE ASSETS. The new rules require business combinations initiated after June 30, 2001 to be accounted for using the purchase method of accounting and goodwill acquired after this date will no longer be amortized, but will be subject to annual impairment tests. All other intangible assets will continue to be amortized over their estimated useful lives. As the Company has not completed any business combinations through September 30, 2001, the Company believes that these standards will not have a material impact on its financial position or operating results.

ITEM 2. -MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of the financial condition and results of operations of the Company for the three months and nine months ended September 30, 2001 and 2000 should be read in conjunction with the accompanying unaudited condensed consolidated financial statements and the related footnotes thereto.

This report includes forward-looking statements. You can identify these statements by forward-looking words such as "may," "will," "possibly," "expect," "anticipate," "project," "believe," "estimate" and "continue" or similar words. You should read statements that contain these words carefully because they discuss our future expectations, contain projections of our future results of operations or of our financial condition, or state other "forward-looking" information. We believe that it is important to communicate our future expectations to our investors. However, there will be events in the future that we have not been able to accurately predict or control and that may cause our actual results to differ materially from those discussed. For example, contaminations at our facilities, changes in the pharmaceutical or biotechnology industries, competition and changes in government regulations or general economic or market conditions could all have significant effects on our results. These factors should be considered carefully and readers should not place undue reliance on our forward-looking statements. Before you invest in our common stock, you should be aware that the occurrence of the events described in the "Cautionary Factors Relevant to Forward Looking Information" and "Business" sections included in our Form 10-K/A report, as of December 31, 2000 could harm our business, operating results and financial condition. All forward looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements and risk factors contained or referred to herein.

OVERVIEW

Since our inception in 1988, we have been primarily engaged in research and development of human therapeutic products. As a result of a restructuring in the second half of 1999, our sole focus is now on our stem cell technology. In 1999, by contrast, our corporate headquarters, most of our employees, and the main focus of our operations were primarily devoted to a different technology--encapsulated cell therapy, or ECT. Since that time, we terminated a clinical trial of the ECT then in progress, we wound down our other operations relating to the ECT, we terminated the employment of those who worked on the ECT, we sold the ECT and we relocated from Rhode Island to California. The year 2000 was a year of transition, in which we completed the consolidation and restructuring of our operations. Comparisons with the previous year's results are correspondingly less meaningful than they may be under other circumstances.

We have not derived any revenues from the sale of any products, and we do not expect to receive revenues from product sales for at least several years. We have not commercialized any product and in order to do so we must, among other things, substantially increase our research and development expenditures as research and product development efforts accelerate and clinical trials are initiated. We have incurred annual operating losses since inception and expect to incur substantial operating losses in the future. As a result, we are dependent upon external financing from equity and debt offerings, revenues from collaborative research arrangements with corporate sponsors to finance our operations and grants. There are no such collaborative research arrangements at this time and there can be no assurance that such financing or partnering revenues will be available when needed or on terms acceptable to us.

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, nonrecurring events, including without limitation the receipt of one-time, nonrecurring licensing payments, and the initiation or termination of research collaborations, in addition to the winding-down of terminated research and development programs referred to above.

RESULTS OF OPERATIONS

THREE MONTHS ENDED SEPTEMBER 30, 2001 AND 2000

For the three months ended September 30, 2001 revenue from grants totaled $276,537. There was no such revenue for the three months ended September 30, 2000.

Research and development expenses totaled $1,554,558 for the three months ended September 30, 2001, compared with $1,328,263 for the same period in 2000. The increase of $226,295 or 17% from 2000 to 2001 was primarily attributable to the related costs of an increase in personnel to facilitate the expansion of our research programs and initiate development, and the cost of leasing a larger facility.

General and administrative expenses were $564,068 for the three months ended September 30, 2001, compared with $744,404 for the same period in 2000. The decrease of $180,336 or 24%, from 2000 to 2001 was primarily attributable to the effect of the lower valuation of non-qualified stock options on compensation cost, offset by costs related to an increase in personnel, which included the hiring of senior management personnel as part of the reorganization and consolidation of our operations in California and the cost of leasing a larger facility.

Investment income for the three months ended September 30, 2001 and 2000 was $55,001 and $80,248 respectively. Interest expense of $59,461 for the three months ended September 30, 2001 was charged against the wind-down reserve, as the expense was part of the bond payments related to the Rhode Island facilities. Interest expense for the same period in 2000 was $66,720. The decrease in 2001 was attributable to lower outstanding debt and capital lease balances in 2001 compared to 2000.

NINE MONTHS ENDED SEPTEMBER 30, 2001 AND 2000

For the nine months ended September 30, 2001, revenues from grants totaled $376,537, and revenues from assignment of rights related to technology totaled $300,000. There was no such revenue for the nine months ended September30, 2000.

Research and development expenses totaled $6,057,957 for the nine months ended September 30, 2001, compared with $3,350,101 for the same period in 2000. The increase of $2,707,856 or 81% from 2000 to 2001 was primarily attributable to the cost of leasing a larger facility and costs related to an increase in personnel to facilitate the expansion of our research programs and initiate development.

General and administrative expenses were $2,661,230 for the nine months ended September 30, 2001, compared with $2,172,137 for the same period in 2000. The increase of $489,093 or 23%, from 2000 to 2001 was primarily attributable to the related costs of an increase in personnel, which included the hiring of senior management personnel as part of the reorganization and consolidation of our operations in California, and the cost of leasing a larger facility.

In December 2000, we established a reserve of $1,780,578 related to the carrying costs for the Rhode Island facilities through 2001. At September 30, 2001 our reserve was $557,163. In comparison, for the first nine months ended September 30, 2000 we incurred costs of $768,733 in excess of a reserve of $1,634,522 created in December 1999 for the first six months of 2000.

Investment income for the nine months ended September 30, 2001 and 2000 was $180,334 and $218,480 respectively. Interest expense of $189,764 for the nine months ended September 30, 2001 was charged against the wind-down reserve, as the expense was part of the bond payments related to the Rhode Island facilities. Interest expense for the same period in 2000 was $209,287. The decrease in 2001 was attributable to lower outstanding debt and capital lease balances in 2001 compared to 2000.

On January 9, 2001, we sold 22,616 Modex shares for a net price of 182.00 Swiss francs per share, which converts to $112.76 per share, for total proceeds and a realized gain of $2,550,230. On April 30, 2001, we sold our remaining shares in Modex for a net price of 87.30 Swiss Francs per share, which converts to approximately $50.51 for total proceeds and a realized gain of $5,232,168, net of commissions and fees. We no longer hold any shares of Modex.

Other income for the nine months ended September 30, 2001 was $180,389, which was a refund for an overpayment of property taxes in prior years. At June 30, 2001we recorded a loss of $24,484 relating to the disposal of some our equipment located in our former headquarters in Sunnyvale, California.

LIQUIDITY AND CAPITAL RESOURCES

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

We had unrestricted cash and cash equivalents totaling $11,853,983 at September 30, 2001. Cash equivalents are invested in money market funds.

We continue to have outstanding obligations in regard to our former facilities in Lincoln, Rhode Island, including lease payments and operating costs of approximately $1,200,000 per year associated with our former research laboratory and corporate headquarters building, and debt service payments and operating costs of approximately $1,000,000 per year with respect to our pilot manufacturing and cell processing facility. We have subleased a portion of these facilities and are actively seeking to sublease, assign or sell our remaining interests in these facilities. Failure to do so within a reasonable period of time will have a material adverse effect on our liquidity and capital resources.

On August 3, 2000, we completed a $4 million common stock financing transaction with Millennium Partners, LP, or the Fund, an investment fund. The Fund purchased our common stock at $4.33 per share. The Fund is entitled, pursuant to an adjustable warrant issued on August 3, 2000 in connection with the sale of common stock to the Fund, to purchase additional shares of common stock for $0.01 per share. The adjustments to the adjustable warrant are calculated on eight dates beginning six months from the closing and every three months thereafter. The number of additional shares the Fund may be entitled to on each date will be based on the number of shares of common stock the Fund continues to hold on each date and the market price of our common stock over a period prior to each date. We have the right, under certain circumstances, to cap the number of additional shares by purchasing part of the entitlement from the Fund. In addition, the Fund was granted an option for twelve months to purchase up to $3 million of additional common stock. On August 23, 2000 the Fund exercised $1,000,000 of its option to purchase additional common stock at $5.53 per share. On June 8, 2001, the Fund exercised its remaining option to purchase $2 million of our common stock at $4.3692 per share.

We have sold all of our shares of Modex Therapeutics, Ltd. for total net proceeds of$7,782,398 net of commissions and other fees. In addition, on April 30, 2001, we sold Modex our rights to future payments under the agreement between us and Neurotech S.A. for $300,000.

On May 10, 2001, we entered into a common stock purchase agreement with Sativum Investments Limited for the potential future issuance and sale of up to $30,000,000 of our common stock, subject to restrictions and other obligations. We, at our sole discretion, may draw down on this facility, sometimes termed an equity line, from time to time, and Sativum is obligated to purchase shares of our common stock at a 6% discount to a volume weighted average market price over the 20 trading days following the drawdown notice. We are limited with respect to how often we can exercise a drawdown and the amount of each drawdown. We may, but are not required to, draw down on the equity line from time to time as necessary and possible under the terms of the facility. As of July 11, 2001, we notified Sativum of our intention to draw down up to $5,000,000 at a market-based share price not less than $5.00 per share beginning July 12, 2001. Sativum purchased a total of 707,947 shares of our common stock at an average purchase price of $5.65 per share, net of Sativum's discount of six percent. Because the market based price of our common stock was less than $ 5.00 for 4 trading days during the draw down period, our $5,000,000 request was reduced to $4,000,000. Our placement agents, Pacific Crest Securities, Inc. and Granite Financial Group, Inc.

received $80,000 and $40,000, respectively, as placement fees in connection with this draw down, resulting in net proceeds to us of $3,652,604, after paying escrow fees and other associated costs.

While our cash requirements may vary, as noted above, we currently expect that our existing capital resources, including income earned on invested capital, will be sufficient to fund our operations for the next twelve months. Our cash requirements may vary, however, depending on numerous factors. If for some reason we are not able to drawdown on the equity line, lack of necessary funds may require us to delay, scale back or eliminate some or all of our research and product development programs and/or our capital expenditures or to license our potential products or technologies to third parties.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We have sold all of our shares of Modex Therapeutics, Ltd., refered to in our Form 10-K for the year ended December 31, 2000.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITIES-HOLDERS

None

ITEM 5. OTHER INFORMATION

On September 26, 2001, the size of the Board of Directors was increased to six and Dr. Ricardo Levy was elected to the new position.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

None

SIGNATURE

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 thereunto duly authorized.

STEMCELLS, INC.

(Name of Registrant)

November 7, 2001 /s/ George Koshy

Controller and Acting Chief Financial Officer (principal financial officer and principal accounting officer)